

AR27





## NATURAL RESOURCES GROUP

Finds, develops and produces principally crude oil, natural gas liquids and natural gas. Is actively developing coal and uranium reserves, and is engaged in geothermal and oil shale projects. In 1979 produced energy in seven countries and explored for energy in 21 countries. Has 8,800 employees and net investment in properties, plants and equipment of \$2.9 billion.

| NET INCOME                                    | Millions of Dollars |        |
|---|---------------------|--------|
|   | 1979                | 1978   |
| Petroleum exploration and production          | \$ 504              | \$ 423 |
| Coal, uranium and geothermal                  | (20)                | (21)   |
| Equity in earnings of nonsubsidiary companies | (9)                 | (10)   |
|   | \$ 475              | \$ 392 |
| CAPITAL EXPENDITURES                          | \$ 876              | \$ 589 |

## PETROLEUM PRODUCTS GROUP

Secures, refines, transports, distributes and sells petroleum liquids, including feedstocks and finished products. These products are sold through both company and independently owned service stations and other marketing outlets. The group operates five U.S. refineries, has interests in three foreign refineries, conducts a marine shipping business and owns and operates 6,700 miles of common carrier crude oil and products pipelines. Net investment in properties, plants and equipment totals \$1.1 billion. Has 7,200 employees.

| NET INCOME                                       | Millions of Dollars |        |
|--|---------------------|--------|
|  | 1979                | 1978   |
| Petroleum refining, marketing and transportation | \$ 179              | \$ 40  |
| Equity in earnings of nonsubsidiary companies    | 27                  | 9      |
|  | \$ 206              | \$ 49  |
| CAPITAL EXPENDITURES                             | \$ 423              | \$ 187 |

## CHEMICALS GROUP

From natural gas, natural gas liquids and other petroleum-based feedstocks produces ethylene, cyclohexane, paraxylene, polyolefins plastics, synthetic rubber, carbon black, man-made fibers, fabricated plastic products, packaging products and nitrogen fertilizer. Operates 40 U.S. plants and has interests in 27 foreign plants and has sales offices in 23 countries. Net investment in properties, plants and equipment totals \$654 million. Has 8,700 employees.

| NET INCOME                                    | Millions of Dollars |        |
|---|---------------------|--------|
|   | 1979                | 1978   |
| Chemicals                                     | \$ 178              | \$ 59  |
| Equity in earnings of nonsubsidiary companies | 7                   | 1      |
|   | \$ 185              | \$ 60  |
| CAPITAL EXPENDITURES                          | \$ 114              | \$ 126 |

# phillips at a glance 1979

In its efforts to find and develop energy and produce fuels and chemicals, Phillips uses the talents of 30,300 employees in 38 countries. The majority of these employees are directly involved in activities carried out by the company's three worldwide operating groups—Natural Resources, Petroleum Products and Chemicals. Other employees in corporate staff organizations provide the operating groups with support services such as research and development. At the end of 1979, Phillips products and processes were licensed in 35 countries. Assets totaled \$8.5 billion and stockholders totaled 121,200. The company maintains its headquarters in Bartlesville, Okla., where it was founded in 1917.

If you have any questions about the information in this annual report or about the company, please contact Phillips stockholder relations office in New York City (212/344-4617) or Bartlesville (918/661-5660).





THIRD QUARTER 1979

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## AR27



# NEWSREPORT

## To the Owners of Phillips Petroleum Company

Phillips estimated earnings for the nine months were \$584.6 million. Income taxes totaled \$888.5 million, or 60 percent of pretax income. The company's capital expenditures of \$1.025 billion were significantly greater than earnings.

Roughly 62 percent, or \$635 million, of Phillips worldwide capital expenditures in the period went toward energy-related projects in the U.S.

Phillips nine months earnings increased 33 percent to \$3.79 a share, compared with 1978 nine months restated earnings of \$2.85 a share. Revenues in the 1979 nine-month period were \$6.70 billion, compared with \$5.22 billion in the same period a year ago.

Earnings represented a 10.9 percent return on the company's average total assets of \$7.2 billion, or about 11 cents for every dollar the company has invested in its business.

Earnings in the nine months period increased because of higher worldwide prices for petroleum products, improved chemical prices and increased chemical sales resulting in part from expanded capacity.

Exploration and production results declined both in the United States and abroad because of higher exploration expenses, particularly increased costs for dry holes and charge-off of non-productive leases.

Overall the company's exploration expenses have more than doubled from the same period a year ago.

Phillips worldwide natural gas production rose 3 percent and natural gas liquids production rose 10 percent. The company's worldwide crude production declined 8 percent, primarily because of lower output from Indonesia and loss of Iranian production.

Crude oil production is expected to increase in the fourth quarter as a result of higher output from our Greater Ekofisk Development in the Norwegian North Sea, where additional wells are being drilled and a seventh field is scheduled to come on stream before the end of the year.

The company's estimated earnings in the third quarter of 1979 increased 62 percent to \$193.0 million, or \$1.25 a share, compared with restated earnings of \$118.8 million, or \$.77 a share, for the same period a year ago.

Revenues for the third quarter were \$2.50 billion, an increase from a year ago's revenues of \$1.75 billion.

The third quarter earnings increase resulted primarily from higher sales volumes and prices in Phillips chemicals business and from increased profitability in the company's overseas petroleum operations.

Phillips profits on U.S. petroleum operations, which include both oil and natural gas production and refining and marketing activities, amounted to 3.2 cents a gallon in the third quarter, up four-tenths of a cent a gallon from the same period a year ago.

*Wm. C. Brown*

President and  
Chief Operating Officer

November 21, 1979

*J. M. Martin*

Chairman and  
Chief Executive Officer  
Bartlesville, Oklahoma





## **PHILLIPS INVENTIONS SHARE SPOTLIGHT AMONG YEAR'S BEST**

Two Phillips Petroleum Company inventions — a new method of re-refining waste motor oil into high-quality reusable products and an instrument to measure the properties of two different gases simultaneously — were selected by Industrial Research Development magazine as outstanding scientific achievements.

Phillips Re-Refined Oil Process (PROP) is designed to reduce environmental concerns and increase recovery yields while restoring waste oil to its original quality. The company recently built a PROP

facility for the state of North Carolina and will soon complete a plant, twice as large as the first, for an oil marketing company in Canada.

The second invention — the EMBA III mass spectrometer — is the first instrument of its kind to measure the individual molecular composition of two different gases simultaneously.

Recognition for PROP was shared by scientists Marvin Johnson, G. P. Nowak and D. C. Tabler. Honored for mass spectrometer development work were T. W. Schmidt and J. A. Favre.

## **PHILLIPS REACHES POSITIVE SETTLEMENT WITH ENERGY AGENCY**

Phillips has reached a settlement with the Department of Energy resolving all issues against the company regarding U. S. government petroleum price and allocation controls over the last six years.

The settlement did not constitute a finding by D.O.E. that Phillips had overcharged anyone. At issue were differences of opinion between Phillips and the federal agency over interpretation of complex D.O.E. regulations.

The company's agreement with the federal energy agency consists of three main parts: one, to accelerate Phillips U. S. energy budget by \$100 million; two, to forego passing on \$75 million in previously incurred "banked" costs that would otherwise be re-

flected in future gasoline and propane price increases; and three, to increase supplies of heating oil and other middle distillates by absorbing about \$22 million of the high costs of these imports.

Commenting on the agreement, W. F. Martin, chairman of the board and chief executive officer, said: "What's most important here is that D.O.E. agrees the consumer is best served by expenditures that will increase energy supplies."

Phillips will make direct refunds to a few crude oil resellers and refiners to resolve specific issues.

Martin added that the D.O.E. settlement avoids what could have been costly litigation. Adequate provisions for the settlement have previously been made in the company's financial records.

## **PLASTIC PIPE COMPANY CHOOSSES ARIZONA SITE**

Phillips Driscopipe, Inc., a Dallas, Texas-based subsidiary of Phillips Petroleum Company, recently announced plans for its sixth U.S. production facility for polyethylene pipe products. Construction of the more than one million-pound-a-month capacity plastic pipe plant will begin in the fourth quarter on a site in Maricopa County, Arizona.

The plant will produce a full line of Driscopipe plastic pipe products for expanding western state mar-

kets. Primary uses for plastic pipe include sewer and water services, gas distribution, and field operations in oil, gas and mining industries. The plant is expected to be ready for operation sometime during the first half of 1981.

In Startex, S.C., a fifth U.S. plant recently began producing Driscopipe products, primarily for East Coast and southeastern markets. Other plants are in Williamstown, Ky., Brownwood, Texas, Watsonville, Calif. and Pryor, Okla.



### **PHILLIPS STOCK HITS ALL-TIME HIGH**

Phillips stock — adjusted for stock splits — reached a new all-time high of \$46 1/8 a share during trading on October 8, 1979.

The company's stock last split on May 7, 1977, closing the previous day at \$53 5/8 and opening the next trading session on the new pricing basis at \$26 13/16.

Since that time the overall Phillips stock trend has been upward. It reached \$36 3/8 in May 1978 before falling back to \$28 7/8 in October 1978. A strong upward trend during 1979 then produced the all-time high this October.

At October's close, Phillips stock was priced at \$43 a share.

### **TENTATIVE ACCORD REACHED IN MERGER WITH INTERPLASTIC**

Phillips has made an agreement in principle to acquire Interplastic Corporation, a producer of polyester resins with potential uses in the automobile industry's fuel conservation effort. Phillips has agreed to pay approximately \$15.5 million for the Minneapolis, Minn., firm.

Phillips decision to acquire Interplastic is consistent with company efforts to expand U.S. operations in fields where Phillips management, research and other capabilities can be employed effectively.

"Acquiring Interplastic would contribute to continued growth of

our chemical operations and would give Phillips an increased opportunity to utilize our research strength in the auto industry fuel efficiency effort," says L. H. Johnstone, executive vice president for Chemicals Group.

The acquisition proposal has been approved by Interplastic's executive committee and board of directors. It remains subject to execution of a definitive agreement between the two corporations, compliance with various regulatory requirements and approval of Interplastic's shareholders.

### **LARGE POLYETHYLENE EXPANSION PLANNED**

Phillips is expanding its polyethylene manufacturing capacity by 450 million pounds a year — an increase of more than 45 percent over current U.S. capacity.

Company president Wm. C. Douce told the New York Society of Financial Analysts that Phillips will have a domestic polyethylene capability of nearly 1.5 billion pounds a year when this project is completed in 1981.

The expansion will take place at

Adams Terminal near Houston where the company already has polyethylene units capable of producing 940 million pounds a year and another 60 million-pound-a-year unit under construction.

In recent years, polyethylene has been one of the company's primary chemical growth areas. The versatile plastic resin is used in the manufacture of pipe, containers, wire and cable coating, automotive parts and other consumer goods.

### **J. LUCIAN SMITH ELECTED TO BOARD**

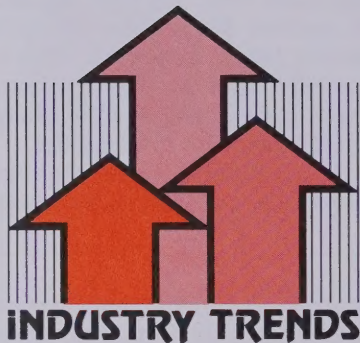
J. Lucian Smith, former president and chief operating officer of The Coca-Cola Company, is now a member of Phillips board of directors.

Smith held various positions in sales and administration with Coca-Cola before his election to the company's board of directors

in 1972. He became president and chief operating officer in 1974 and retired in August 1979. The new Phillips director continues as a director of The Coca-Cola Company and the Southern Railway System. He lives in Atlanta, Ga.

Phillips now has 15 directors, 10 from outside the company.





## NEW TECHNOLOGY, HIGHER PRICES GIVE MAUREEN LIFE

Development drilling in Maureen Field began in mid-1979 through the use of this portable drilling platform and other innovations.

With the world's hunger for oil growing faster than production, oil companies are developing fields they couldn't afford to a few years ago. Higher oil prices provide part of the incentive. More important, it's new and innovative use of technology that's turning once non-commercial fields into reasonably good money makers.

The Maureen Field in the United Kingdom sector of the North Sea, discovered by Phillips in 1973, is the latest example of applying new technologies to otherwise marginal fields. The company owns a 34 percent interest in the project.

Several serious disadvantages have worked against the early development of Maureen. First, it isn't a big field by North Sea standards where high production costs can only be offset by oversize fields. Second, it isn't clustered together with other fields like the seven fields in Phillips Greater Ekofisk Development. And, third, the field

is some 160 miles off the coast of England and not situated close to any available undersea pipeline. At \$300 a foot, a pipeline to shore would cost at least \$250 million.

Still, Phillips felt Maureen was a field worth developing. Engineers came up with a plan — a way to develop and produce Maureen within a feasible cost range.

Drilling is being done from a floating platform, such as a semi-submersible rig, instead of from a structure standing on the sea floor.

At the same time, to minimize investment, the wellheads need to be close enough together so all of them can be tied to a single platform. The solution to the problem: use a drilling template.

Such a template is akin to a sewing pattern, in this case showing where to start each well. This enabled the wells to be drilled by a floating rig while the production platform is under construction. Normally, development drilling isn't started until a permanent platform is completed and installed.

Maureen's drilling template, about half the size of a football field, was built in Great Britain. Drilling began in mid-1979.

The production platform, being designed in Italy, will be built and equipment fully installed while located in shallow water. It will then be floated to the site. A key part of the production structure is three huge storage tanks capable of holding 650,000 barrels of oil. Use of this tank-storage plan eliminates the necessity of a pipeline. Instead, tankers pick up the oil.

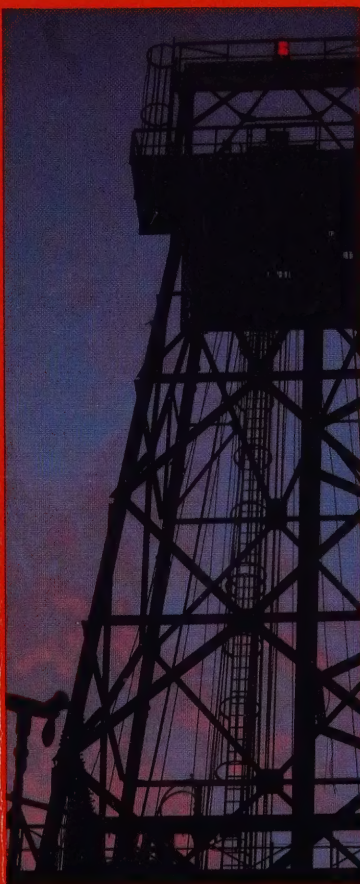
This "game plan" for Maureen Field is expected to save 18 months and many millions of dollars compared with traditional approaches.

The Maureen development plan is also the kind of technological achievement that may well account for an increasing amount of the energy produced around the world in the years ahead.





# special report





W. F. Martin, chairman and chief executive officer, and Wm. C. Douce, president and chief operating officer, gave a report on the current status of Phillips before the New York Society of Security Analysts on October 30. This special section of **NEWSREPORT** includes their remarks plus a sampling of questions and answers.

## REMARKS BY WM. C. DOUCE

Phillips has grown significantly since we spoke to the Society in October 1975.

In the four years since then, Phillips has consistently exceeded an 18-company industry average in the four critical measures of financial performance:

- Return on assets
- Return on stockholders' equity
- Earnings growth and
- Return on sales

Phillips strong financial results can be traced directly to our continued growth in the worldwide production of petroleum liquids and natural gas. Underpinning that performance are the steady enhancement of our petroleum products operation and our solid position in selected chemical markets.

Today Phillips is a broadly diversified energy resource company ranked eleventh in size among U.S. oil companies. Considered by itself, our growing chemicals business is among the top 25 U.S. chemical companies.

I will comment briefly on key developments in Phillips three operating groups — natural resources, petroleum products and chemicals — and then preview some of the new ventures and research efforts we have under way.

The emphasis of our natural resource effort continues to be finding and producing crude oil, natural gas and natural gas liquids. Our exploration and production activities extend to six continents and 23 nations. It is significant to note that 62 percent of our total hy-

drocarbon production comes from the United States, while 31 percent is based in Western Europe. The remaining 7 percent comes principally from Nigeria, with smaller amounts from Egypt and Indonesia.

On the basis of Btu, crude oil accounts for 41 percent of our worldwide production, natural gas 44 percent and natural gas liquids 15 percent.

Natural gas liquids has shown the strongest production gain so far this year. Our worldwide NGL output has increased 10 percent. Natural gas production has increased 3 percent worldwide this year. Crude oil production has decreased 8 percent.

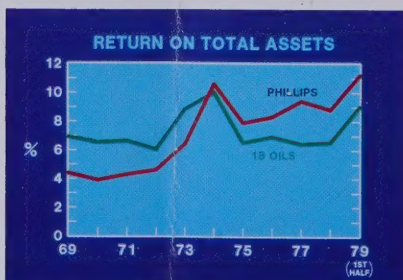
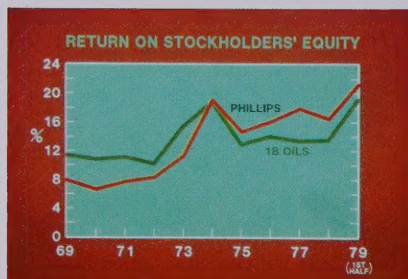
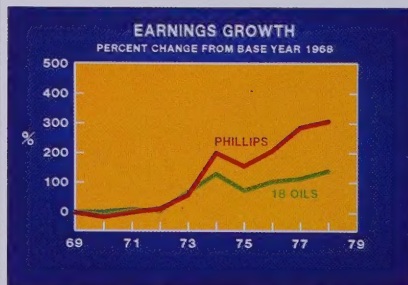
The North Sea now plays a pivotal role in Phillips worldwide natural resources activities. The nucleus is our 37 percent interest in the Greater Ekofisk Development, located in the Norwegian sector.

During the third quarter, Phillips net production from the Greater Ekofisk Development averaged 120,000 barrels a day of crude oil, 10,000 barrels a day of natural gas liquids and 410 million cubic feet a day of natural gas.

Our Greater Ekofisk natural gas production has increased 27 percent in 1979. This increase is the principal factor behind our higher worldwide natural gas production this year. By the same token, natural gas liquids production from Greater Ekofisk, which began this year, has been benefiting our worldwide natural gas liquids production. In terms of crude oil production, we expect Greater Ekofisk output for the year as a whole to be about the same as — or perhaps a little better than — in 1978. Operational delays and maintenance requirements have restrained our crude production this year, but in 1980, crude output will be on the upswing again.

Currently six fields are producing. This past weekend we began producing from the second

In the year 1978, these charts exclude Phillips gain from the sale of its stock interest in Pacific Petroleum Ltd.





platform in the Eldfisk Field and by the end of the year, we will start from the Edda Field. Edda will be the last Ekofisk area field to come into operation.

The Phillips Group estimates the total investment in the Greater Ekofisk Development will be somewhat more than the previous estimate of \$5.5 billion. A revised figure will be available before the end of the year. The bulk of the Greater Ekofisk investment is now behind us. All major facilities are in place, and we are moving toward peak production levels in the early 1980s. Based on the best information now available, peak produc-

tion rates — in gross figures — should be in the area of 575,000 to 625,000 barrels of oil daily, about 40,000 barrels a day of natural gas liquids, and approximately 1.6 billion cubic feet of natural gas daily.

Three other Phillips prospects in the North Sea have promising potential. In an area adjacent to Ekofisk, exploratory wells on Block 1/9 have tested good flows of hydrocarbons. The operator, Norway's state oil company, continues work on the development plan. Phillips has a 26 percent interest.

In the United Kingdom sector, development plans for Maureen

**This modern drillship is operating in 3,150 feet of water in the Exmouth Plateau area, 170 miles off the northwest coast of Australia. Phillips is the operator for a five-company consortium involved in this deep-water exploration program.**





Field have been approved by the British government and we are moving ahead with the construction of a production platform. Tankers will be able to receive oil directly from the platform's under-sea storage tanks. This will eliminate the need for a pipeline to onshore facilities. Phillips holds a 34 percent interest in Maureen. We expect initial production in 1982, with gross output growing to about 75,000 barrels of oil a day.

Just to the northwest of Maureen, our Tiffany discovery well in the region known as T-Block has tested commercially promising amounts of oil and a small amount of natural gas. Phillips has a 35 percent interest in this region.

We are continuing to evaluate two other T-Block discoveries, Toni and Thelma. If the program proceeds as anticipated, the Tiffany Field could be the first prospect brought into production. T-Block is an example of the type of discovery we need to help offset the natural decline in production that will occur in the Greater Ekofisk Development in the 1980s.

In other overseas ventures, oil production on Salawati Island in Indonesia was curtailed severely early this year because of increased water production. Gross output in September averaged 7,500 barrels of oil a day. A new gas lift system was put into operation this month and production has been increased to 11,000 barrels a day. Phillips interest is 50 percent.

It remains to be seen whether we can resume our participation in oil production from Iran. Political developments there interrupted our crude oil production of about 6,000 barrels a day.

In Nigeria, the government this summer increased its participation from 55 to 60 percent and also required all operators to cut back production. These actions have reduced our net production from about 42,000 to about 32,000 bar-

rels a day. However, we expect some increase in output late this year when a new field is brought on.

Phillips has an active deep-water exploration program off the northwest coast of Australia, where exploratory drilling got under way in May. We also are evaluating a large area of deep-water acreage in the Philippines.

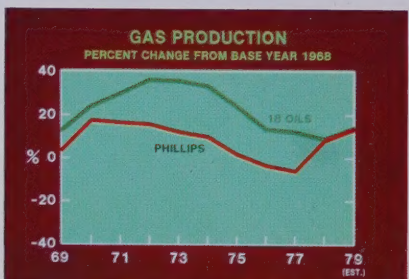
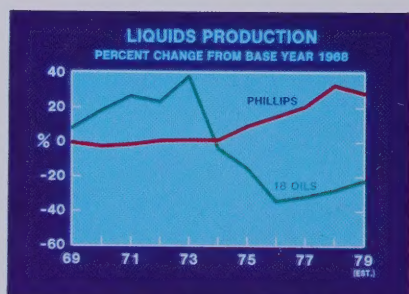
In North America, Phillips has a 20 percent interest in the Whitefish discovery — a major gas strike in the Canadian Arctic Islands. We will participate in at least two more Arctic Island wells this winter.

Phillips share of production on the Alaskan North Slope will increase to around 27,000 barrels a day now that Pump Station Number Two has come on stream. This is about a 4,000 barrel-a-day increase over our third quarter production.

Elsewhere in Alaska, we've drilled two dry holes so far on expensive offshore leases in Lower Cook Inlet. We're now drilling our third well.

In the lower 48 states, we have stepped up our activities by successfully bidding on offshore leases and increasing our drilling program. Most recently we have obtained a number of promising offshore federal leases in California. We also are active in the Rocky Mountain Overthrust Belt and the deep-water areas of the Gulf of Mexico.

In addition to our strong position in oil and natural gas, Phillips is diversifying its resource base through a firm commitment to coal and ura-



**Phillips has a stake in this central Utah well. It is located in the Rocky Mountain Overthrust Belt, a geologic formation that slices through the North American continent. From Utah to Montana this belt is currently an active exploration area.**







nium and a growing involvement in oil shale and geothermal energy.

We feel we have an exceptional opportunity to capitalize on the anticipated growth of coal consumption. With our lignite coal reserves in seven Gulf Coast states totaling more than eight billion tons, we expect to become one of the major coal producers in the U. S.

Coal deliveries are scheduled to start in late 1984 from our first mine, which will be located near Shreveport, Louisiana. The customer will be a regional electric cooperative. We see direct burning in utility boilers to be the initial primary market for lignite.

Our oil shale leases in Utah appear more promising now that economics have improved and a title dispute between the state of Utah and the federal government has moved through the District Court. The issue is now on the docket of the U. S. Supreme Court. A final ruling would put us in a position to begin work on a semi-commercial scale pilot plant with our partners.

In non-fossil fuels, Phillips is moving ahead with development of its uranium mining venture in northwestern New Mexico. Our reserves in this region total more than 25 million pounds of recoverable uranium oxide. Initial production is set for late 1982. We have signed a contract to supply a major electric utility with uranium oxide into the 1990s.

Phillips has expanded its exploration for geothermal energy into

six Western states. Thus far we've made two discoveries in Nevada and one in Utah, which we are evaluating as local power sources.

Our downstream petroleum operations — refining, marketing and transportation — are based primarily in the United States. Some 85 percent of such revenues come from domestic operations.

The central objective in this segment of our business has been and will continue to be improvement in profitability by:

- Improving efficiencies, especially in our transportation and marketing operations.
- Balancing our refining capacity with our sales volumes.
- And increasing the flexibility of our refining capacity to process a greater variety of crude oils and at the same time produce more high-value products from each barrel of feedstock.

Our progress in meeting these objectives is exemplified in the expansion and modernization of our Sweeny, Texas, refinery. When completed in 1980, this project will nearly double the refinery's crude capacity to 190,000 barrels a day and will increase our total U.S. refining capacity by almost 30 percent. It will also enable us to bring our U.S. refining capacity in line with our domestic sales volumes and will eliminate the need to rely on outside purchases to help meet our product sales requirements.

Equally important, we will be able to select from 95 percent of the different types of crude oil available in the world. This flexibility is critically important in view of the growing scarcity and escalating cost of the light, premium crude oils. This refinery will be one of the most modern facilities in the world for refining heavy and high-sulfur crudes.

To back up our Sweeny refinery expansion, we have enlarged our

pipeline system to handle more imported crude from our Gulf Coast terminal and to improve the distribution of finished products. A fleet of six new tankers is being constructed to move crude oil into our Gulf Coast terminal from Caribbean trans-shipment terminals, Mexico and South America.

In petroleum marketing, we have been successful in reducing overhead and streamlining operations. Four years ago, Phillips supplied more than 17,000 retail outlets. Today, that number has been trimmed to some 11,000, and only about 330 are company-operated stations.

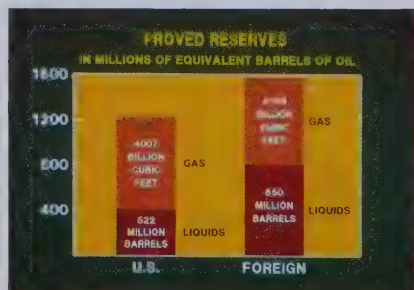
In our third major area of operations — chemicals — we have made significant progress in selective diversification . . . building on our strongest product lines and restructuring or eliminating the unprofitable ones.

Among our strongest product lines are olefins, cyclics and specialty chemicals. Almost 40 percent of Phillips chemical revenues come from these sources.

Ethylene is the cornerstone of our olefins business, and our production is increasing. The ethylene plant expansion at the Sweeny, Texas, refinery has doubled Phillips domestic capacity to more than two billion pounds a year.

Plastics is our second major growth area. Our domestic polyethylene capability, located near Houston, has been increased in the past 18 months by more than 70 percent — to 940 million-pounds-a-year. An additional 60 million-pounds-a-year increase is scheduled to come on stream early next year. This will bring our total U.S. capacity to one billion pounds a year.

Markets for our principal plastic resin, Marlex high-density polyethylene, continue to be strong. We feel our domestic polyethylene business will enjoy substantial growth over the next five years.





Our European high-density polyethylene business will continue to expand.

Sales for our "engineering" plastics, K-Resin and Ryton, are building rapidly. Our capacity to produce K-Resin — a clear, shatter-resistant plastic — increased this year with completion of a 120 million-pound-a-year plant near Houston. Sales for Ryton, a heat and corrosion-resistant plastic, increased 15 percent last year alone.

While the major emphasis in chemicals is on producing raw materials for other manufacturers, we also make and market some finished products. For example, our Driscopipe line of plastic pipe serves as a major market for our high-density polyethylene. We are preparing to build our sixth U.S.

pipe plant to meet continued demand for this versatile product.

One of the traditional strengths of Phillips chemicals business is our ability to supply it with adequate raw materials produced within the company. For example, the ethane feedstock for our new ethylene plant is supplied in part from a network of cryogenics plants located in five states and linked together by more than 2,000 miles of pipeline. Overall, our internal operations provide more than two-thirds of the raw material needs of our chemicals group.

That concludes my review of our current situation. Now I'd like to preview some prospects Phillips is developing which we believe will enhance our continuing profitability.

As part of our search for energy

around the world, Phillips has negotiated a seismic exploration agreement with the People's Republic of China. We are now conducting geophysical surveys along the coast of the South China Sea.

In Nigeria, where we have large undeveloped natural gas reserves, we are the technical leader in a proposed LNG plant on the Nigerian coast.

In petroleum processing operations, we will continue to adapt our facilities to changing supply conditions, markets and technologies. Currently, we are evaluating our Kansas City and Borger, Texas, refineries with an eye to making them capable of processing a wider range of feedstocks and increasing their output of higher value products.

**The Phillips Mexico makes its initial visit to the company's Freeport, Texas, terminal. The Mexico and five "sister ships" are designed to bring crude oil into U.S. ports. These tankers can transport about 400,000 barrels of oil each trip from Caribbean trans-shipment terminals, Mexico and South America.**





We're also working on the process technology for the next generation of feedstocks for our refineries — feedstocks such as very heavy crude oils, shale oil and coal liquids.

Looking to the future of our chemicals business. Phillips is announcing today a major polyethylene expansion at our Houston-based plant. This expansion will increase our domestic polyethylene capacity by 450 million pounds annually, a 45 percent increase. When the expansion is completed in 1981, our total U.S. polyethylene capacity will be approximately 1.5 billion pounds a year.

Phillips is also making final arrangements for construction of a high-density polyethylene plant in Singapore. It will be the first high-density polyethylene plant in Southeast Asia.

We have increased our interest to 50 percent in our high-density polyethylene plant in Belgium and are evaluating the potential of plants elsewhere in Europe.

We expect a fully owned sulfur chemicals plant under construction in Belgium to be in operation within the next two years.

Nowhere is our commitment to future opportunities more evident than in Phillips strong research and development program.

Our R&D strategy strikes a balance between Phillips short-term and long-term needs. Over the short-term, the objective is to improve process efficiency and continue our expansion into new

markets. Long-range objectives are aimed at developing new technological advances and products that in turn will generate new business lines.

Examples of the payoff of our R&D commitment can be found in the Phillips exploration program. Our scientists have developed a remote seismic telemetry unit that eliminates the need for miles of electrical cable. This technique provides better data quality, and in some areas doubles the productivity of geophysical crews.

Another example is continuing research into enhanced oil recovery techniques to add to our production levels. Conventional production techniques generally recover about 30 percent of a field's total oil in place. But with present enhanced recovery technology, we expect to increase recovery in certain reservoirs by 5 to 15 percent.

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## REMARKS BY W. F. MARTIN

I'd like to review briefly our current financial picture, then talk about the direction Phillips will be taking over the next few years and what impact actions by the federal government could have on our plans.

As most of you are aware, Phillips earnings for the third quarter were \$193 million, or \$1.25 a share. This represents a 62 percent increase compared with the same period a year ago.

Our earnings rise resulted primarily from higher sales volumes and prices in our chemicals business and from increased profitability in our overseas petroleum operations.

Our third quarter performance was somewhat below the second

quarter, primarily because of translation losses and lower results in our downstream petroleum operations in the United States.

Looking at the full year 1979, we expect earnings to exceed our 1978 results, which included a one-time gain of \$170 million from the sale of our interest in Pacific Petroleum Ltd. of Canada. We anticipate our 1979 petroleum liquids production to hold steady with last year's level, while natural gas production will be higher. We also expect continued good performance from our chemicals and petroleum products operations.

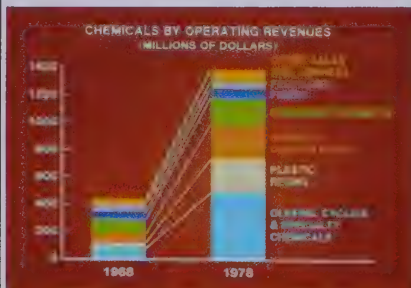
We look for our capital expenditures to reach \$1.3 billion in 1979. That is about a third greater than last year. Almost 70 percent of our capital dollars will go toward U.S. operations, with the emphasis on exploration and production activities and refining and transportation improvements.

Our board of directors will give continuing attention to dividend policy. Our latest dividend increase came this past April, when we raised the dividend by 17 percent on an annualized basis. It was our second increase in a little more than a year.

Phillips financial position is strong. Our debt-to-equity ratio at the end of the third quarter, was 16 percent.

Our strategies are implicit in the programs and plans Bill Douce has just outlined. They can be summarized in this manner:

- We intend to remain primarily an oil and natural gas company.



**This expansion and modernization of the Sweeny, Texas, refinery, south of Houston, will increase the company's U.S. refining capacity by almost 30 percent. It will be completed in 1980.**







- We will continue to work toward establishing a balance between our crude oil production, our processing capability and our petroleum product sales.
- As we expand our hydrocarbon base, we will also be moving toward production of alternate fuels — initially lignite coal and uranium.
- In our downstream operations, we plan to continue to improve the flexibility and the efficiency of our petroleum refining, transportation and marketing segments through strategic capital improvements.
- We intend to keep our chemicals operations strong by expanding in areas where the markets are the strongest and by maintaining secure feedstock supplies, primarily from our own production.
- Lastly, we will continue to evaluate investment opportunities where our management, technical skills and our research capabilities could be

employed effectively. We are well positioned to take advantage of opportunities should they arise.

As you are aware, the political climate will continue to have a major influence on the petroleum industry. Among the major issues today are: the so-called windfall profits tax; the public lands issue; stringent environmental restrictions and the proposed quotas on crude oil imports.

The government's proposed windfall profits tax, of course, is an outright excise tax on most of the additional revenue an oil company might receive from decontrol of U.S. crude oil prices. It would be a tax that an oil producer would have to pay, whether he made a profit or not. Furthermore, it is a tax that would divert funds from the industry at a time when an aggressive program is needed in the United States to increase energy supplies.

The withdrawal of public lands from resource exploration also poses a major uncertainty for the industry. The amount of land that

is now effectively off-limits to mineral exploration and development is roughly equivalent to the area that lies east of the Mississippi River. Much of this land — especially in Alaska and the Rocky Mountains — is believed to have high potential for oil and natural gas reserves and other energy minerals.

Stringent environmental legislation is a third factor that continues to adversely affect the petroleum industry's efforts to develop energy here at home. Government should reach a more practical balance between our environmental desires and our energy needs. Although we see no major problems at this time in developing our lignite reserves, there are many environmental roadblocks standing in the way of coal and oil shale development. Likewise, there are many deterrents to the development of nuclear power, especially in light of the Three Mile Island incident.

Finally, there is a concern in the petroleum industry over how we can maintain an adequate energy base for the country if import quotas are enacted. We question whether the country's energy sufficiency can be rebuilt fast enough to meet growing demand. As for Phillips, import quotas could be a problem since we expect to meet the feedstock needs of our Sweeny refinery through oil imports based on our overseas production, which is expected to increase. We are optimistic that any quota system will consider the needs of companies that are expanding and modernizing refining capacity, in line with Department of Energy goals.

In summary, we see the 1980s as a critical period for the petroleum industry and for the country. We expect to see worldwide crude oil supplies remain tight, with the risk of further supply disruptions very high. How much petroleum products will be available will depend

**Phillips has hydrocarbon production in these six countries.**  
**By British thermal unit (Btu) measurement, nearly two-thirds is from the U. S. Norway is the largest source overseas.**





on how much crude oil is available.

World oil prices will continue to rise. The extent of price increases will be determined in part by the value of the U.S. dollar, which in turn will be highly influenced by domestic energy policies adopted by Congress and by the effectiveness of our government to control and reduce inflation.

With respect to Phillips own foreign crude oil production, we feel we are in a relatively favorable position. The lion's share of our production comes from stable, secure areas of the world. Our expanding production will further strengthen our ability to provide our domestic refineries with sufficient feedstock.

The 1980s will be a period of transition. It will be a time when our country must not only build a secure base of oil and natural gas, but also move toward the development of alternate fuels. We expect oil and natural gas to continue to meet the major portion of our energy needs through the next decade and the decade beyond. At the same time, however, we see the demand for coal increasing substantially and the use of nuclear power growing as well. Phillips is preparing now to take advantage of the energy opportunities that will arise in the transition period of the '80s.

We believe our company and the petroleum industry generally have the capability to meet a major share of this country's future energy needs. We have the technical expertise. We have the experience in taking risks. And we can provide the necessary capital.

Today, we're putting these resources to work with greater intensity than ever before. But more can be done. Working in a constructive partnership with government, the petroleum industry can help rebuild America's energy security . . . and at the same time reward investors with enhanced returns.

*Here are questions the analysts asked. In most cases the questions were answered by W. F. Martin. Where indicated, they were answered by Wm. C. Douce. Both questions and answers were edited for brevity.*

**Q. Your exploration charges have more than doubled this past year. How have your Lower Cook Inlet leases in Alaska affected these charges, and what is the outlook?**

A. Through the nine months of this year more than half of our investment in Lower Cook Inlet has been charged off. We perhaps will have additional charge-offs in the fourth quarter, depending on the third well that is now being drilled.

As for 1980, we intend to accelerate our program of exploration and production, and of course the results of our exploration will certainly affect the amount of charge-offs. We will be taking risks in order to look for energy and hopefully we will be successful.

**Q. In light of the recent profit increases most oil companies have realized from overseas operations, is there any possibility that England, Norway or any other nation might try to impose additional taxes on U.S. companies?**

A. There's always that possibility. However, in areas where we operate, I know of no plans for an increase in taxation on the oil companies. Recently, the United Kingdom imposed a petroleum revenue tax of 60 percent, which is already in effect. In other countries like Nigeria, the tax is already at such a high level that I think they would be reluctant to increase their taxes.

**Q. Why did Phillips sell its interest in Pacific Petroleums and what plans do you have to go back into Canada?**

A. We have never left Canada. We still operate in Canada. We have a substantial interest in Canadian acreage. Also exploratory work is going on in the Arctic Islands. Pacific Petroleums Ltd. was a company that was owned about 48 percent by Phillips. We were very satisfied with their operations. But the oil that was produced up there was not available to us. The only cash flow we had was coming in the way of dividends, which were, of course, taxable. We were offered a price we felt we could not turn down. Looking at the other uses that we might have for those funds, we made the decision to sell our interest.

**Q. What is your drilling schedule in the Greater Ekofisk program in the Norwegian North Sea?**

A. (Wm. C. Douce) We're a little less than 60 percent complete in our development drilling program in the Greater Ekofisk Development. We've drilled 87 wells to date, and we've got 64 more wells that we plan to drill. It will probably be a couple more years before we have them completed.

**Q. You've had a significant production history on Ekofisk. Could you tell us whether the program is meeting with your expectations?**

A. Our production did not increase as fast as we had originally anticipated, but this was mainly due to differences in timing and getting fields on stream. We had delays in deliveries of platforms and in drilling wells. We had some additional maintenance problems, which of course will continue. But for various reasons, the program did not go as fast as we had hoped.

By the end of this year we will be producing, on a gross basis, 500,000 barrels a day, or more. That should increase throughout the year 1980.



**Q. How suited are the Ekofisk area fields to enhanced recovery?**

A. (Wm. C. Douce) The Phillips Group, with the approval of the Norwegian government, has approved a pilot water flood test. It should start in the next 18 to 24 months. If the pilot test is successful, a large scale water flood project could be conducted, which could improve the recovery from the Ekofisk Field.

**Q. How long do you think you can maintain the peak production you expected from the Greater Ekofisk area? When it begins to fall off, how quickly will it fall off?**

A. (Wm. C. Douce) Well, we expect a peak probably in the early 1980s, maybe 1981. How fast it will fall off, I don't know since our development program is only 60 percent completed.

**Q. You had a foreign currency exchange loss in the third quarter of 1979. How does this compare with other years?**

A. For the nine months of 1979, our translation losses were approximately \$20 million. For the same period during 1978 they were about \$12 million. But then in 1978, they hit us pretty hard in the fourth quarter. So really, we ought to be a little bit ahead this year compared to last year, as long as the dollar holds.

**Q. Do you have rigs for your proposed drilling on Tiffany or Thelma prospects in the United Kingdom sector of the North Sea? What is your drilling schedule?**

A. (Wm. C. Douce) We have made arrangements for a rig to drill on the Tiffany and Thelma blocks. Beyond that, we anticipate drilling some more wells on Toni and Thelma, but we have no contractual arrangements for rigs at the moment.

**Q. When do you expect this rig to start drilling on the Tiffany well?**

A. We're guessing a little bit, but it should be before the end of the year.

**Q. You own a substantial amount of acreage in the Overthrust Belt. Can you tell us a little bit**

**about what's going on there, what you specifically might be doing?**

A. (Wm. C. Douce) I'll have to talk to you broadly about the Overthrust operations. We've got about 1.8 million acres out there at the present time. We have three to four seismic crews active in the area and plan to drill the first Phillips operated well in the next couple of months.

**Q. Why did the board pass the opportunity to increase their dividends at the last board meeting?**

A. We did raise our dividends effective with the dividend payment of June 1. Now beyond that, I can tell you, and assure you, that the board will give continuing attention to dividend policy.

**Q. Do you have a deficiency in your supply of petroleum products?**

A. Let me explain that situation to you. First, our refineries have run this year, based on a capacity of a little over 300,000 barrels a day, at a rate of about 96 percent or 97 percent. In prior years, in order to supply our customers we purchased motor fuel and other products as well, but mainly motor fuel. It was readily available, it was a service that we could perform as we increased our marketing throughout the country.

That product is not available here in the United States at this point in time. Therefore, we've had to severely allocate our own customers and ourselves on an equal basis because we will only be able to supply the volume of product resulting from our own refinery operations. We're going to be helping that situation as our new Sweeny refinery expansion comes on stream, which will expand our production of petroleum products by about 30 percent.

We wish that we had more product available to our customers. If we did buy it, it would be at very high prices and we would, of course, have to distribute these high costs to all of our customers on an equitable basis in accordance with Department of Energy regulations. We have chosen not to do that. We're hopeful that we'll be able to supply additional quantities of product in 1980.



# COMMENTARY

## PHILLIPS PRESIDENT URGES TIGHT ALLIANCE OF BUSINESS-GOVERNMENT

A tight alliance between business and government — one that utilizes the strengths and recognizes the weaknesses in both institutions — could make the current oil shortage our last, Wm. C. Douce, Phillips president and chief operating officer, told the National Association of Mutual Insurance Companies annual convention in Toronto, Canada.

Speaking to about 1,000 U.S. and Canadian insurance executives, Douce urged government — especially at the federal level — to participate in this alliance. He said developing rational government policies consistent with free market principles are vital to solving energy problems.

Douce emphasized: "Business,

in order to plan for tomorrow, has to know that profit — the investment magnet for critical energy projects — isn't going to be pulled out from under projects after they've begun."

Government could also set the direction for a sensible energy policy by providing selective incentives. "Investment tax credits and lower capital gains taxes are needed to fully develop the potential waiting in solar and synthetic fuel technologies," Douce said.

Business should provide the bulk of the money, the manpower and the technology necessary to bring on new energy, and business should be willing to accept the risk of failure in developing these new technologies, Douce said.

## PEOPLE, GOVERNMENT UNDERSTANDING KEY TO ENERGY SOLUTIONS

Polls consistently showing a majority of the American people believe the energy crisis is a hoax provide a weak foundation for critical political decisions, C. M. Kittrell, Phillips executive vice president, said at the national convention of Associated Press Managing Editors in Tulsa, Okla.

It is this uncertain foundation that spawns unproductive ideas like the so-called windfall profits tax, said Kittrell. "It is not a tax on profits at all. It is an excise tax at the wellhead on most oil produced in this country — regardless of whether the company producing it has any profits," he said.

Energy companies should be free to explore high-potential U.S. regions currently off-limits to the energy search . . . free to use the funds from oil decontrol to seek new reserves . . . and free to apply petroleum industry expertise, technology and capital to the development of non-petroleum energy sources, he said.

Kittrell said government involvement is needed to solve the energy problem, "but the right kind of involvement." He said the government must develop a political and economic environment in which knowledgeable energy people can flourish rather than languish.

## SELF-RELIANCE VITAL TO PROBLEM SOLVING BY AMERICAN PEOPLE

The American people must stop looking to government to supply all the answers and start renewing the great American tradition of self-reliance, G. J. Morrison, Phillips vice president for petroleum products marketing, told the Raleigh, N. C., Rotary Club.

"From the largest corporation to the individual homeowner, the American people have an incredi-

ble ability to work out problems," said Morrison, expressing optimism that Americans could break their addiction to imported oil and become energy self-reliant.

Morrison said what Americans need to solve this and other problems is a climate in which to realize their potential to the fullest. "This means a free competitive market for all businesses to work in."



## CONSOLIDATED STATEMENTS OF INCOME

|   | Three Months Ended September 30 |                   | Nine Months Ended September 30 |                   |
|---|---------------------------------|-------------------|--------------------------------|-------------------|
|   | 1979                            | 1978*             | 1979                           | 1978*             |
|   | (thousands of dollars)          |                   |                                |                   |
| Revenues:   |                                 |                   |                                |                   |
| Sales and other operating revenues                    | \$2,448,863                     | \$1,726,751       | \$6,555,217                    | \$5,137,305       |
| Equity in earnings of nonsubsidiary companies         | (4,155)                         | 8,632             | 12,392                         | 32,723            |
| Other revenues  | 51,307                          | 15,748            | 132,352                        | 51,912            |
|   | <u>2,496,015</u>                | <u>1,751,131</u>  | <u>6,699,961</u>               | <u>5,221,940</u>  |
| Costs and expenses:                                   |                                 |                   |                                |                   |
| Costs and operating expenses                          | 1,606,238                       | 1,193,193         | 4,306,391                      | 3,516,374         |
| Selling, general and administrative expenses          | 87,950                          | 67,323            | 257,758                        | 211,099           |
| Depreciation, depletion, amortization and retirements | 173,890                         | 105,266           | 483,717                        | 285,867           |
| Taxes other than income taxes                         | 39,134                          | 30,646            | 107,765                        | 87,947            |
| Interest and expense on indebtedness                  | 23,971                          | 19,385            | 71,248                         | 58,220            |
| Provision for income taxes                            | 371,805                         | 216,521           | 888,452                        | 623,854           |
|   | <u>2,302,988</u>                | <u>1,632,334</u>  | <u>6,115,331</u>               | <u>4,783,361</u>  |
| Net income  | <u>\$ 193,027</u>               | <u>\$ 118,797</u> | <u>\$ 584,630</u>              | <u>\$ 438,579</u> |
| Net income per common share                           | \$ 1.25                         | \$ .77            | \$ 3.79                        | \$ 2.85           |
| Average shares outstanding (in thousands)             | 154,428                         | 154,013           | 154,427                        | 153,874           |

## CONDENSED CONSOLIDATED BALANCE SHEETS AT SEPTEMBER 30

|  | 1979                   | 1978*              |
|--|------------------------|--------------------|
|  | (thousands of dollars) |                    |
| Assets:  |                        |                    |
| Cash and marketable securities                     | \$1,288,908            | \$ 505,733         |
| Accounts and notes receivable                      | 1,258,230              | 764,942            |
| Inventories  | 551,470                | 511,560            |
| Total current assets                               | 3,098,608              | 1,782,235          |
| Investments and long-term receivables              | 226,921                | 482,501            |
| Properties, plants and equipment — net             | 4,513,909              | 3,839,082          |
| Prepaid and deferred charges                       | 164,106                | 179,927            |
|  | <u>\$8,003,544</u>     | <u>\$6,283,745</u> |
| Liabilities and stockholders' equity:              |                        |                    |
| Accounts and notes payable                         | \$1,033,032            | \$ 652,334         |
| Long-term debt and obligations due within one year | 79,481                 | 77,765             |
| Accrued taxes                                      | 1,229,645              | 626,382            |
| Other accruals                                     | 76,939                 | 58,564             |
| Total current liabilities                          | 2,419,097              | 1,415,045          |
| Long-term debt                                     | 631,815                | 702,806            |
| Other long-term liabilities                        | 133,037                | 68,914             |
| Accrued contingent liabilities                     | 180,888                | 132,126            |
| Obligations under capital leases                   | 105,180                | 129,493            |
| Deferred credits                                   | 518,168                | 494,506            |
| Minority interest in consolidated subsidiaries     | 10,573                 | 10,236             |
| Stockholders' equity                               | 4,004,786              | 3,330,619          |
|  | <u>\$8,003,544</u>     | <u>\$6,283,745</u> |

\*Effective January 1, 1979 the Company changed its oil and gas accounting practices to implement Financial Accounting Standards Board Statement No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies." The net income effects of adopting Statement No. 19 follow: increase third quarter 1978 net income \$11.0 million (\$0.07 per share), increase nine months 1978 net income \$27.4 million (\$0.18 per share), increase 1978 net income \$7.6 million (\$0.05 per share), with the cumulative effect being to increase the total of net income for the last five years \$5 million and decrease December 31, 1978 stockholders' equity \$61.4 million (1.7%). Appropriate restatements have been made.



## CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

|  | Three Months Ended<br>1979 | September 30<br>1978* | Nine Months Ended<br>1979 | September 30<br>1978* |
|--|----------------------------|-----------------------|---------------------------|-----------------------|
|  | (thousands of dollars)     |                       |                           |                       |
| Funds provided from operations amounted to ..... | \$385,502                  | \$236,826             | \$1,114,758               | \$801,955             |
| While funds were expended for:                   |                            |                       |                           |                       |
| Properties, plants and equipment .....           | 464,370                    | 237,163               | 1,025,125                 | 660,452               |
| Investments .....                                | 5,320                      | 1,443                 | 8,398                     | 4,209                 |
| Dividends to Company stockholders .....          | 54,049                     | 46,204                | 154,427                   | 138,492               |
| Reduction of long-term borrowings .....          | 32,385                     | 25,956                | 61,943                    | 96,811                |
| Other .....                                      | 16,003                     | 6,259                 | 20,401                    | 30,347                |
|  | <u>572,127</u>             | <u>317,025</u>        | <u>1,270,294</u>          | <u>930,311</u>        |
| Which left a deficiency of .....                 | \$186,625                  | \$ 80,199             | \$ 155,536                | \$128,356             |
| This deficiency was financed by:                 |                            |                       |                           |                       |
| Long-term borrowings .....                       | \$ 249                     | \$ 850                | \$ 861                    | \$ 2,157              |
| Property sales and retirements .....             | 22,199                     | 11,028                | 36,812                    | 40,262                |
| Sales of investments .....                       | 25,809                     | 5,965                 | 31,998                    | 8,778                 |
| Proceeds from sale of Company stock .....        | —                          | 5,406                 | 15                        | 12,748                |
| Other .....                                      | 7,648                      | (2,387)               | 22,372                    | 38,138                |
| Withdrawals from working capital .....           | 130,720                    | 59,337                | 63,478                    | 26,273                |
|  | <u>\$186,625</u>           | <u>\$ 80,199</u>      | <u>\$ 155,536</u>         | <u>\$128,356</u>      |

## SELECTED FINANCIAL DATA

### Summary of net income:

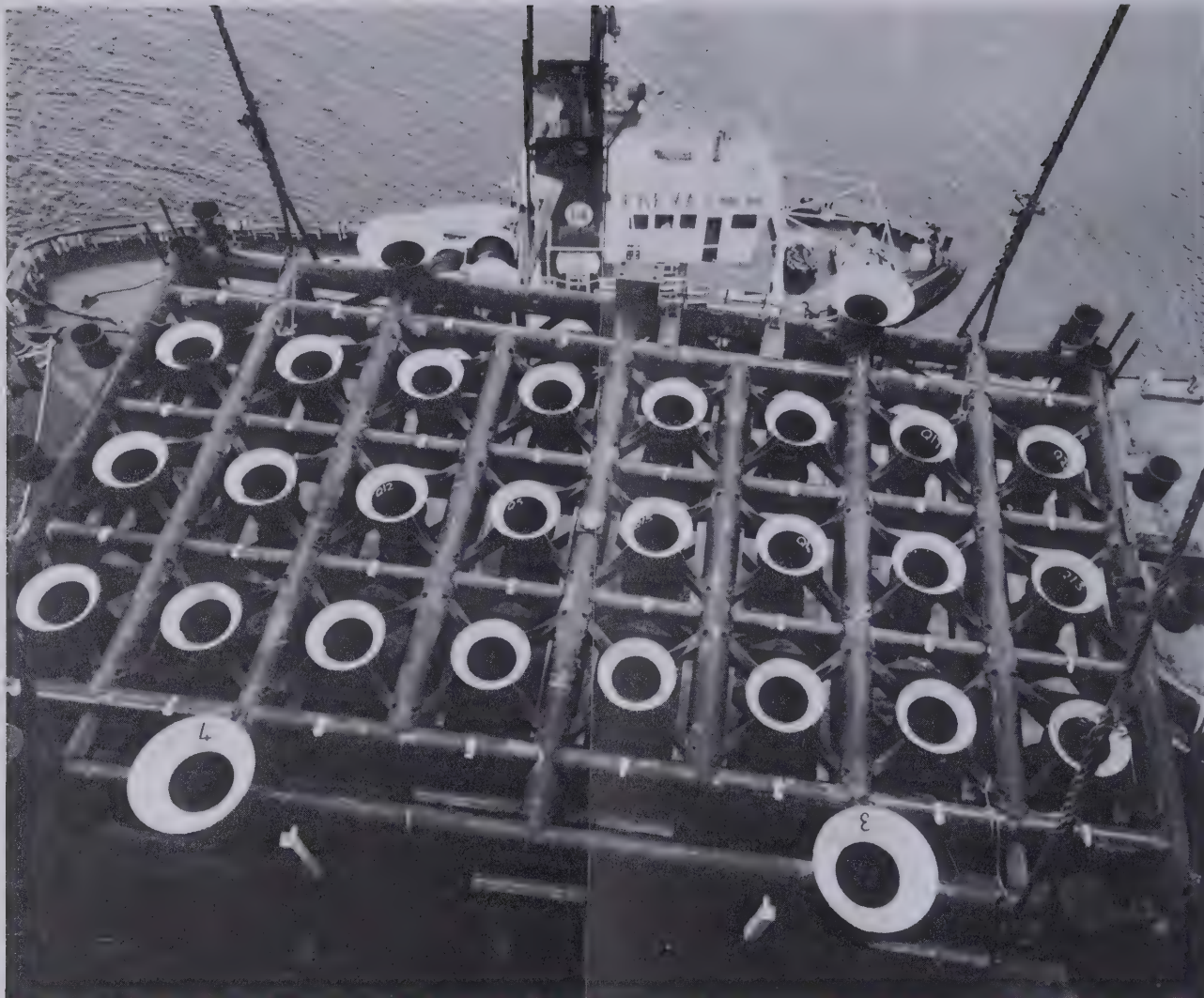
|  |                  |                  |                   |                  |
|--|------------------|------------------|-------------------|------------------|
| Petroleum exploration and production                     |                  |                  |                   |                  |
| United States .....                                      | \$ 64,334        | \$ 74,162        | \$ 199,804        | \$219,685        |
| Outside United States .....                              | 52,780           | 20,703           | 135,981           | 145,715          |
|  | <u>117,114</u>   | <u>94,865</u>    | <u>335,785</u>    | <u>365,400</u>   |
| Petroleum refining, marketing and transportation         |                  |                  |                   |                  |
| United States .....                                      | 14,152           | 1,467            | 88,911            | 15,115           |
| Outside United States .....                              | 15,395           | 2,083            | 36,343            | 2,926            |
|  | <u>29,547</u>    | <u>3,550</u>     | <u>125,254</u>    | <u>18,041</u>    |
| Worldwide petroleum .....                                | 146,661          | 98,415           | 461,039           | 383,441          |
| Worldwide chemicals .....                                | 48,533           | 10,546           | 128,466           | 52,106           |
| Other † .....  | (2,167)          | 9,836            | (4,875)           | 3,032            |
|  | <u>\$193,027</u> | <u>\$118,797</u> | <u>\$ 584,630</u> | <u>\$438,579</u> |
| Return on average total assets .....                     |                  |                  | 10.9%             | 9.8%             |
| Capital expenditures — properties, plants and equipment: |                  |                  |                   |                  |
| Petroleum operations — U.S. ....                         | \$307,091        | \$ 89,390        | \$ 593,627        | \$250,296        |
| Petroleum operations — Outside U.S. ....                 | 106,724          | 88,137           | 274,401           | 238,134          |
| Worldwide chemicals .....                                | 25,274           | 38,153           | 83,846            | 100,290          |
| Other .....  | 20,982           | 18,537           | 58,916            | 61,985           |
| Corporate .....  | 4,299            | 2,946            | 14,335            | 9,747            |
| Exploration costs .....                                  | 112,151          | 56,756           | 287,056           | 142,290          |
| Foreign currency translation losses .....                | 17,946           | 17,433           | 18,776            | 12,097           |

†Other includes equity in earnings of nonsubsidiary companies, coal, uranium, geothermal and other corporate.

## OPERATING HIGHLIGHTS (liquids in thousands of barrels per day)

|   |       |       |       |       |
|---|-------|-------|-------|-------|
| United States:  |       |       |       |       |
| Crude oil produced .....                                      | 121   | 127   | 121   | 125   |
| Natural gas liquids produced .....                            | 145   | 127   | 141   | 132   |
| Natural gas produced (net millions of cubic feet daily) ..... | 1,064 | 1,050 | 1,110 | 1,133 |
| Crude oil refined .....                                       | 286   | 304   | 293   | 293   |
| Petroleum products sold .....                                 | 396   | 458   | 449   | 471   |
| Europe-Africa:  |       |       |       |       |
| Crude oil produced .....                                      | 159   | 166   | 159   | 162   |
| Natural gas liquids produced .....                            | 10    | —     | 5     | —     |
| Natural gas produced (net millions of cubic feet daily) ..... | 449   | 405   | 473   | 405   |
| Petroleum products sold .....                                 | 50    | 25    | 43    | 29    |
| Other areas:  |       |       |       |       |
| Crude oil produced .....                                      | 5     | 22    | 7     | 26    |
| Natural gas produced (net millions of cubic feet daily) ..... | —     | —     | 1     | —     |
| Petroleum products sold .....                                 | 9     | 3     | 3     | 4     |





This steel drilling template, half the size of a football field, has been placed on the ocean floor in Maureen Field, 160 miles off the coast of England in the British North Sea. In conjunction with a portable drilling platform (photo on page 4) and several other innovations, development drilling has begun in the Maureen Field while a permanent production platform is still under construction. This plan is expected to save 18 months in bringing the field into production. (Related story, page 4.)

**PHILLIPS PETROLEUM COMPANY**  
BARTLESVILLE, OKLAHOMA 74004

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Wichita, Kansas



FOURTH QUARTER 1979



# NEWSREPORT

## HIGHLIGHTS

*Capital spending in 1980 to break all records ..... page 2*

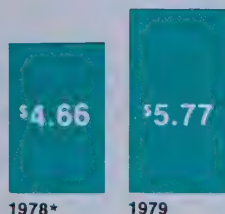
*Borger refinery sidelined ..... page 3*

*Heavy oils gain in importance ... page 5*

*Oil tax bill: a closer look ... page 6*

## AR27

### EARNINGS (per share)



### REVENUES (billions)



\* Results for 1978 include sale of Pacific Petroleum Ltd. stock.

## *To the Owners of Phillips Petroleum Company:*

Phillips 1979 estimated earnings totaled \$891.1 million. Income taxes reached \$1.245 billion and capital expenditures rose to \$1.447 billion.

Nearly 90 percent of the company's capital spending during the year went toward energy-related projects, with the emphasis on programs in the United States. In 1979 Phillips spent \$901 million for U.S. energy exploration and development and for refinery and transportation expansion and modernization.

The company's earnings for 1979 amounted to \$5.77 a share, on revenues of \$9.745 billion. These earnings represented a return of 9 cents on a dollar of revenue. Measured by return on average total assets, the 1979 earnings equaled 12 cents for each dollar the company has invested in its businesses.

The company's 1979 earnings were 24 percent higher than 1978 restated earnings of \$718.1 million, or \$4.66 a share, on revenues of \$7.422 billion. Results for 1978 include an after-tax gain of \$169.9 million, or \$1.10 a share, on the sale of Phillips 48 percent interest in Pacific Petroleum Ltd. of Calgary, Canada.

Phillips total 1979 capital spending of \$1.447 billion was 54 percent higher than a year earlier. These expenditures, combined with dividend payments, exceeded the amount of funds provided from operations, the difference being made up primarily by withdrawals from our working capital and selling of some assets.

Phillips 1979 earnings increased because of higher worldwide prices for petroleum liquids, natural gas and refined products, and higher prices and sales volumes for chemicals.

As a result of the company's expanded efforts to find, develop and produce more energy, exploration costs increased significantly. Exploration costs, including dry hole expenses and undeveloped lease cost write-offs, increased 62 percent to \$393 million.

In the fourth quarter of 1979, Phillips estimated earnings were \$306.5 million, or \$1.98 a share, on revenues of \$3.045 billion. Earnings rose 10 percent over the same period of 1978, when earnings including the gain on the sale of Pacific stock were \$279.5 million, or \$1.81 a share, on revenues of \$2.2 billion.

The company's fourth quarter earnings were higher, primarily because of better prices for crude oil and petroleum products and improved results in the company's chemicals business.

*Wm. C. Brown*

President and  
Chief Operating Officer

February 19, 1980

*J. M. Martin*

Chairman and  
Chief Executive Officer  
Bartlesville, Oklahoma





## **GAS LIQUIDS GAIN, EKOFISK PROGRESS HIGHLIGHT PRODUCTION**

Phillips worldwide natural gas liquids showed the strongest production gain during 1979, increasing 10 percent. Worldwide natural gas production was about the same as in 1978, while crude oil output dropped 7 percent. Higher crude oil production in the Norwegian North Sea partially offset lower output from Indonesia, the United States and Nigeria and the loss of production from Iran.

"This was a year of considerable accomplishment, primarily because of the progress made in the Greater Ekofisk Development in the Norwegian North Sea, where Europe's first offshore oil field was discovered more than 10 years ago," said W. F. Martin, chairman

and chief executive officer.

In 1979, the last three Ekofisk area fields were brought into production and the natural gas liquids processing facilities at Teesside, England, went into operation.

The seven Ekofisk area fields now account for nearly a third of the company's total energy production. Phillips share of Ekofisk area crude oil and natural gas liquids production in 1979 averaged 125,000 barrels a day and natural gas production averaged 384 million cubic feet a day.

In December, Phillips share of Ekofisk crude oil and natural gas liquids output averaged 156,000 barrels a day and natural gas production 460 million cubic feet.

## **PHILLIPS ANNOUNCES RECORD \$1.9 BILLION 1980 CAPITAL BUDGET**

Phillips has approved the largest capital budget in the company's history — \$1.9 billion to cover projects planned for authorization in 1980. "Our strong earnings performance is allowing us to expand substantially our expenditures to increase energy supplies," said W. F. Martin, chairman and chief executive officer.

Nearly 90 percent of the total budget is directed toward energy-

related projects, with the balance earmarked for chemicals.

About 60 percent of the budget, or \$1.1 billion, covers energy-related projects in the U.S.

These projects include petroleum exploration and development, refinery and pipeline modernizations and expansions, and projects aimed at developing the company's reserves of coal, uranium and other energy resources.

## **POLYPROPYLENE DISCOVERY RECOGNIZED**

Phillips is entitled to a patent on solid crystalline polypropylene, a significant modern plastic polymer, according to the formal opinion of a Wilmington, Del., federal judge issued Jan. 11, 1980.

In one of the longest running U.S. patent cases in history, Phillips and three other companies began litigation in 1958 over which company first discovered this polymer. Polypropylene is used in a variety of consumer and industrial pro-

ducts, including man-made fibers for carpets, auto and appliance parts, and clear packaging film.

Phillips patent application covering the polypropylene composition of matter was based on a discovery in 1951 by Phillips scientists J. P. Hogan and R. L. Banks. Hogan and Banks also played leading roles in Phillips discovery of Marlex plastics.

The federal court's opinion is still subject to an appeal.

## **U. S. CENSUS ASKS HELP**

It's census time. The U. S. Census Bureau begins its 1980 count on April 1, and asks your cooperation in making this census the most successful yet.

Constitutional purpose of the

census is reapportionment of the U. S. House of Representatives, but information obtained serves worthwhile purposes in dealing with matters of employment, energy and many others.



### QUARTERLY DIVIDEND INCREASED 10 CENTS

At its January meeting, Phillips board of directors increased the quarterly dividend on a share of stock to 45 cents a share from 35 cents a share. This dividend is payable March 1, 1980, to stockholders of record at the close of business February 8, 1980.

The previous dividend increase

from 30 cents to 35 cents a share, took effect in June 1979. Together these two increases raised dividend payments by 50 percent.

Phillips stock continues a general upward climb. Priced at \$43 at the end of October 1979, it reached a new high of 60% during trading the week of Feb. 4-8.

### BORGER REFINERY DISABLED BY JANUARY ACCIDENT

Phillips 97,000-barrel-a-day oil refinery at Borger, Texas, has been disabled by an explosion and fire that took place on the morning of Jan. 20. No one was killed or critically injured.

Company refining and engineering personnel have spent several weeks evaluating the extent of repair work necessary to restore the refinery to normal operations. Repair of damaged utilities has been given first priority.

When a steam generation plant and water treaters are returned to service, undamaged portions of the refinery can be placed in operation.

This is expected to take place in

mid-March. It will then take about another month to return Borger refinery to its full crude oil charge capability.

The accident's effect on product availability has been minimized by exchanges of crude oil for refined products and other refined products purchases.

The Phillips natural gas liquids processing center, adjacent to the refinery, was not affected.

Philtex specialty chemicals plant, also nearby, was temporarily shut down by loss of a jointly used steam plant. It will also be affected by the loss of specialty chemicals feedstocks normally supplied by the refinery.

### BUSINESS PROFESSOR ELECTED TO BOARD

Michael N. Chetkovich, lecturer and assistant to the dean at the University of California's business school, is now a member of Phillips board of directors. His election was effective Jan. 1, 1980.

Victor H. Palmieri of Los Angeles resigned from Phillips board in December 1979 to accept a federal appointment as U.S. ambassador

at large and coordinator of refugee affairs.

Chetkovich is a certified public accountant and is a retired managing partner for the accounting firm of Deloitte Haskins & Sells. He received the University of California's Centennial Award in 1977 and joined the faculty of his alma mater early in 1979.

### GASOHOL SALES BEING EXPANDED

Phillips is expanding its sales of gasohol to 34 company-operated service stations in four states, as the popularity of this new fuel grows with the American public.

The company began test-marketing gasohol at 19 stations in Iowa, Nebraska and Oklahoma several months ago. Sales of gasohol at these outlets have reached nearly 15 percent of total volume. In expanding gasohol sales to 15 more stations early in 1980, Phillips adds a fourth state — Kansas — to

its gasohol test-marketing territory.

Gasohol is a blend of 90 percent unleaded gasoline and 10 percent ethyl alcohol, which is made from a variety of grains.

Phillips has awarded \$60,000 in grants to four Midwestern universities to find less expensive methods of making ethyl alcohol. Gasohol is currently competitive because of combined state and federal tax exemptions. These add up to more than a dollar a gallon subsidy on gasohol's alcohol content.





## INDUSTRY TRENDS

### SALUTE TO SIMULATION: BETTER THAN REAL THING?

An Odessa training administrator, right, talks with students concerning a simulated problem.

Control room technology in modern processing installations such as chemical plants, refineries, power companies and paper mills is changing rapidly — so fast that keeping operating people up to date is tremendously important.

Phillips and other companies are finding that simulators are an important part of the answer.

Airlines were among the first to use simulators extensively. Flight simulation now results in saving more than 200 million gallons of jet fuel a year. Other industries are saving incalculable amounts of fuel and raw materials.

Even more important, simulators often speed up and improve the training process. Emergencies can be simulated that might never occur. Simulation can be used to train new employees and also veteran employees, as new equipment is introduced.

Phillips began process simulation

training in 1977 at two refineries.

Today its simulation equipment includes a unique unit in Odessa, Texas — a simulator installed in a trailer to provide a highly flexible "hands on" training tool for 225 people employed in 13 natural gas liquids plants.

The Odessa simulator can be programmed to teach employees seven operating processes. It takes only a half hour for an instructor to change programs on the equipment.

This capability didn't happen overnight. A training administrator and a team of engineers spent an entire year perfecting this simulator system specifically for the company's cryogenic operations. They also developed a full set of training manuals.

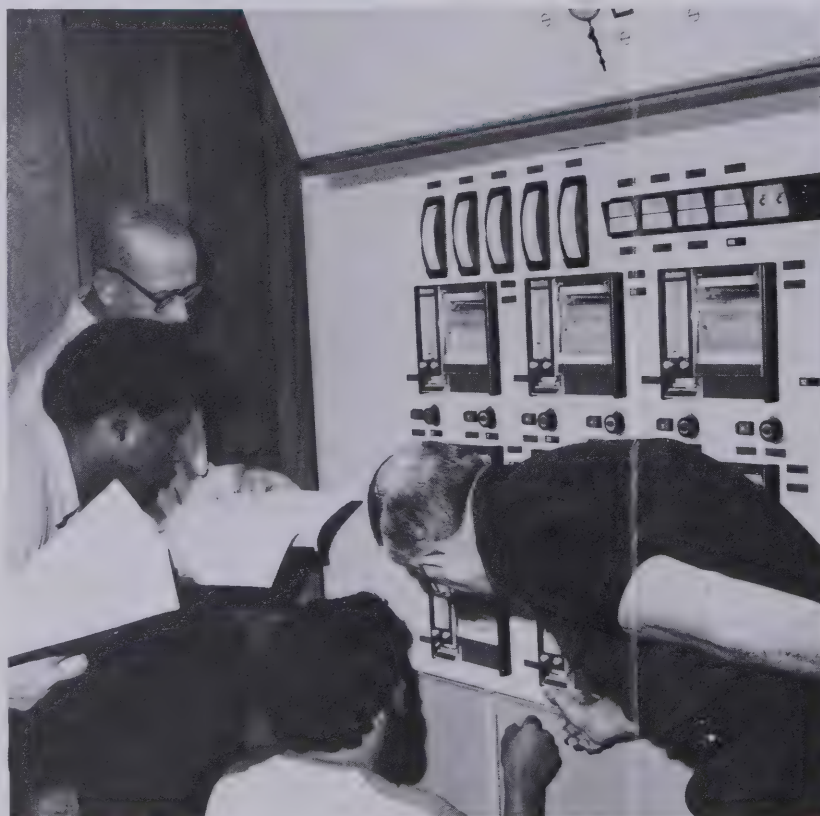
Simultaneous with this activity, the mobile simulator was under construction in New Jersey. It was delivered to Phillips early last year.

The courses are no snap. A typical one runs two weeks and requires 60 hours of instruction, including classroom and manual study and use of the simulator. In a typical session, a student acts as plant operator using a control panel while the instructor uses another panel to create situations that might occur in plant operations.

The student's challenge is to properly set switches, turn knobs and read meters to keep the unit operating at peak efficiency and to avoid upsets. The simulators cut overall training time by 50 percent since students get weeks of experience in a matter of hours.

The cost of simulation equipment is high. The equipment in Odessa cost \$200,000 plus \$40,000 to program a course and \$1,000 to train a student for a week.

While costs are high, the benefits are even higher. So this year Phillips will take delivery on two additional systems — one for chemicals operations near Houston and another for natural resources activities in central Oklahoma.



## HEAVY CRUDE OILS: HERO OF THE 1980s?

In these days of oil shortages and ever-rising prices, heavy oil is getting a strong second look from producers.

Heavy oil is a catch phrase for lower quality crude oil that used to be passed over in favor of higher-quality, easy-to-refine "sweet crudes." There are two types: traditional heavy oil which is rated 20 degree gravity or less by the American Petroleum Institute and heavy crude packed with metals or sulfur that make it difficult to refine. This is regarded as "sour crude."

Both availability and price are strong forces behind the trend to use more heavy oils. Light crudes are in short supply and highly expensive. At present production rates, the world's recoverable reserves of light oil may be virtually used up in 40 years or less.

Enter heavy oil. There's more of it. But both the thick and high-sulfur crudes are costly to produce and difficult to refine. Production of gummier oil often requires steam injection into wells to make it more fluid. Generators to produce this steam burn about one barrel of oil for every three produced.

In the refining process, removing metal and sulfur concentrations requires special costly equipment.

California alone has an estimated 10 billion barrels of heavy oil. That's more oil than in Alaska's Prudhoe Bay Field, which justified construction of the \$7 billion Alyeska pipeline. Texas, Oklahoma, Louisiana, Mississippi, Wyoming and Alaska have substantial reserves of heavy oil, too. Phillips is not specifically directing its search toward heavy oil in the U.S., but the company has exploration programs in some areas which frequently contain heavier oils.

**This new section of Sweeny refinery on Texas Gulf Coast is being constructed to handle 95 percent of world's types of crude oil.**

The company is also positioning itself to be a major user of the hard-to-refine, high-sulfur oils by a series of actions: doubling the size of its Sweeny, Texas, refinery, with three-fourths of its capacity designed to handle most heavy oils; building a fleet of medium-sized tankers; widening a Texas Gulf Coast shipping channel; and adding to a pipeline network. Modernization plans for two other U.S. refineries also are under consideration.

When the projects related to Sweeny expansion are completed, in the next couple of years, Phillips will be able to process 95 percent of the different types of crude oil available in the world.

Since Sweeny refinery will be using more imported high-sulfur crude, Phillips is expanding its tanker fleet to include six relatively small 51,000 ton tankers. These tankers are the right size for picking up oil from Caribbean transshipment terminals, are economical for short trips and can be readily brought into the Freeport, Texas, terminal.





## POSITIVE RESULTS POSSIBLE IF OIL TAX PROPERLY CHanneled

*In his "As I See It" column in the February issue of Phillips employee newspaper, W. F. Martin, chairman and chief executive officer, made these comments on the new excise tax on U.S. crude oil production:*

This tax will affect all Americans, and it's important to understand what it will do and to consider where revenues from it should go.

Although the point has been made many times, it's still not widely known that the tax is misnamed. It is not a "windfall profits" tax. It is a tax on the additional revenues resulting from gradual price decontrol of U.S. crude oil. The tax has nothing to do with whether a company makes a profit.

This distortion of the true nature of the tax has had harmful effects. By falsely implying that the tax is needed to penalize or punish America's oil companies, the proponents have further confused and divided the public about the energy problem. They have cast the oil industry as part of the energy problem, when the industry is really the best hope for a solution.

Exact details of how the tax will be applied have not been determined. It is estimated, however, that the tax will provide government with an additional \$227 billion over the next ten years. But the total tax revenues that will accrue to government from oil production during this time will in fact be much higher.

Under present tax laws and royalty agreements, nearly 60 cents of every additional dollar resulting from decontrol already goes to government and royalty holders. Under the new tax, the government will get a large share of the remaining 40 cents.

The tax is being designed so different tax formulas will apply to different categories of oil, with newly discovered oil and harder-to-produce oil not as heavily taxed. But the key point is that all oil production will be taxed more heavily. Furthermore, if past experience is an indicator, the tax will bring on new, complex regulations that will confuse producers, stimulate more bureaucracy to oversee producers' actions and waste more valuable time while our energy

problems continue to grow worse.

More confusion and delay is just what we don't need at this critical period when our energy future has never been more vulnerable. The crisis in Iran and the disturbing actions of the Soviet Union in the Middle East have painfully underscored the need to more fully develop U.S. energy resources.

The excise tax works directly against the national goal of increasing fuel supplies at home. The \$227 billion taxed away from the petroleum industry means \$227 billion taken away from direct investments in finding and developing U.S. energy resources. Thus, the true effect of the tax is not to penalize oil producers but to penalize oil consumers. In other words, the American public.

Since the tax will be taking investment dollars away from direct energy production, it is my hope that the funds will be used at least indirectly to help overcome the energy problem. Some of the money should be used to help people who face hardships because of higher energy costs. Some should be used to encourage development by private enterprise of better methods of energy production and new supplies. A major amount, however, should be used toward balancing the federal budget so as to stabilize the dollar, reduce inflation and help put our country on a sound economic basis.

The crude oil tax came from a negative action. It is now government's responsibility to see that revenues from the tax are used for positive results.

As for Phillips, even though funds for energy production will be reduced, we are committed to programs helpful to the supply and distribution of domestic energy. We likewise are committed to working with the rest of the industry, government and the public toward developing a unity of purpose in making America more energy self-reliant.

## SOVIET ACT SIGNALS THREAT TO U. S. ENERGY SECURITY

Soviet intervention in Afghanistan signaled an increased threat to U. S. energy security in the 1980s, C. J. Silas, senior vice president of natural resources, told participants at a mid-January National Cotton Council production conference in St. Louis.

"The Soviet Union probably will begin needing foreign oil for its use in the mid-1980s, and that oil is right on the Russians' doorstep in the Middle East," Silas said.

Citing that "it's the same oil we need so badly," Silas recommended four actions to encourage maximum production of U. S. energy: removing price controls

on U. S. oil and gas; government policies to encourage new energy investments; opening up more U. S. acreage for energy development, and taking a hard look at environmental desires vs. energy needs in the U. S., especially in regard to coal and nuclear power.

Concluded Silas: "We stand today at the threshold of a decade when many people have high hopes for peace and prosperity. Many others do not share those hopes. I believe what we do in the field of energy will have more impact on whether we achieve a decade of peace and prosperity than what we do in any other area."

## RESEARCHERS TOLD NEW IDEAS VITAL TO COMPANY SUCCESS

"Phillips will prosper only as long as we have the people to generate new ideas," LeRoy Culbertson, senior vice president for planning and budgeting, said in a late January talk outlining Phillips goals to the company's research and development employees in Bartlesville, Okla.

Natural resources, foundation of the company's businesses, are in limited supply, "so Phillips

challenge is to stretch and upgrade available natural resources to the maximum feasible limits".

It is also essential, Culbertson said, to achieve further diversification through new products and new technologies "in order to survive in a competitive world." The company's production, distribution facilities and marketing efforts must be flexible enough to capitalize on opportunities as they arise.

## OPERATING HIGHLIGHTS (liquids in thousands of barrels per day)

|   | Three Months Ended<br>December 31 |       | Twelve Months Ended<br>December 31 |       |
|---|-----------------------------------|-------|------------------------------------|-------|
|   | 1979                              | 1978  | 1979                               | 1978  |
| United States:  |                                   |       |                                    |       |
| Crude oil produced .....                                      | 121                               | 125   | 121                                | 125   |
| Natural gas liquids produced .....                            | 143                               | 138   | 142                                | 134   |
| Natural gas produced (net millions of cubic feet daily) ..... | 957                               | 1,121 | 1,072                              | 1,130 |
| Crude oil refined .....                                       | 271                               | 327   | 287                                | 302   |
| Petroleum products sold .....                                 | 485                               | 518   | 458                                | 483   |
| Europe-Africa:  |                                   |       |                                    |       |
| Crude oil produced .....                                      | 166                               | 160   | 161                                | 161   |
| Natural gas liquids produced .....                            | 10                                | —     | 6                                  | —     |
| Natural gas produced (net millions of cubic feet daily) ..... | 522                               | 460   | 485                                | 419   |
| Petroleum products sold .....                                 | 56                                | 33    | 46                                 | 30    |
| Other areas:  |                                   |       |                                    |       |
| Crude oil produced .....                                      | 5                                 | 19    | 6                                  | 24    |
| Natural gas produced (net millions of cubic feet daily) ..... | 1                                 | 1     | 1                                  | —     |
| Petroleum products sold .....                                 | 6                                 | 2     | 4                                  | 3     |





Major damage to Phillips Borger, Texas, oil refinery is visible in this photo taken the day following a January 20 accident that disabled the 97,000-barrel-a-day facility. Restoring damaged utility plants to service has been assigned first priority. This will enable start-up of a number of undamaged refinery units. Heavily damaged units at the huge refinery will be out of operation for a longer period. No one was killed or critically injured in the mishap, which damaged a number of structures in nearby areas. (Related story, page 3.)

**PHILLIPS PETROLEUM COMPANY**  
BARTLESVILLE, OKLAHOMA 74004

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**FINANCIAL HIGHLIGHTS**

|   | 1979            | 1978            |
|---|-----------------|-----------------|
| Total revenues                                      | \$9,744,800,000 | \$7,421,900,000 |
| Net income  | \$ 891,100,000  | \$ 718,100,000* |
| Per average share outstanding                       | \$ 5.77         | \$ 4.66*        |
| Return on average total assets:                     |                 |                 |
| Excluding gain on sale of<br>Pacific Petroleum Ltd. | 12.0%           | 9.0%            |
| Including gain on sale of<br>Pacific Petroleum Ltd. | 12.0%           | 11.8%           |
| Dividends paid                                      | \$ 208,500,000  | \$ 184,800,000  |
| Per share   | \$ 1.35         | \$ 1.20         |
| Average shares outstanding                          | 154,427,000     | 153,987,000     |
| Capital expenditures                                | \$1,453,700,000 | \$ 940,200,000  |
| Total assets at year-end                            | \$8,518,700,000 | \$6,833,600,000 |

**OPERATING HIGHLIGHTS**

|   | Net Barrels Daily |           |
|---|-------------------|-----------|
| Crude oil produced:   |                   |           |
| United States   | 121,000           | 125,000   |
| Outside U. S.   | 167,000           | 185,000   |
| Natural gas liquids produced                                | 148,000           | 134,000   |
| Total liquids produced                                      | 436,000           | 444,000   |
| Crude oil refined   | 287,000           | 302,000   |
| Petroleum products sold                                     | 508,000           | 516,000   |
| Natural gas produced — net<br>thousands of cubic feet daily | 1,558,000         | 1,549,000 |

\*Includes an after-tax gain of \$169,900,000 or \$1.10 per share on sale of Pacific Petroleum Ltd.

"Phillips," "the company," "we" and "our" are used interchangeably in this report to refer to the business of Phillips Petroleum Company and its consolidated subsidiaries. Where reference is made to a particular company, it is wholly owned unless otherwise stated. The company's consolidation policy is to include in financial statements the accounts of companies in which more than 50% interest is held.

Phil-AD, Marlex, Convocan, Ryton, K-Resin, Ultrakan, Solprene and Philprene are trademarks for the company's products named in this report.

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An expanded effort to increase energy supplies keynoted the company's activities in 1979. Almost 90 percent of our \$1.45 billion in capital spending went toward drilling new wells, constructing production facilities, improving transportation systems and modernizing and expanding refinery capacity. In all, our 1979 energy-related expenditures were two-thirds greater than in 1978.

An even more ambitious capital program is scheduled for 1980. Projects totaling \$1.9 billion are expected to be authorized during the year. As in the past year, most of our spending will be toward energy-related programs, with a heavy emphasis on U.S. operations.

Strong earnings have permitted stepped-up efforts to find, develop and deliver more energy to consumers. Earnings for 1979 totaled \$891 million, or \$5.77 a share, on revenues of \$9.74 billion.

This compares with 1978 earnings of \$718 million, or \$4.66 a share, on revenues of \$7.42 billion. Phillips 1978 results included the sale of the company's 48 percent stock interest in Pacific Petroleum Ltd. of Canada, which provided an after-tax gain of \$170 million, or \$1.10 a share.

Phillips 1979 earnings represented a return on average total assets of 12 percent, slightly greater than the 11.8 percent earned in 1978. Stated another way, Phillips in 1979 earned 12 cents on every dollar it had invested in its various businesses.

Reflecting the company's strong financial results, the quarterly dividend to stockholders was increased effective June 1, 1979, from 30 cents a share to 35 cents a share, and to 45 cents a share with the March 1, 1980, dividend.

## Reviewing 1979

Each of the company's three operating groups — Natural Resources, Petroleum Products and Chemicals — made major contributions to the company's improved performance in 1979.

Contributing to the performance of our Natural Resources Group was a 10 percent increase in worldwide natural gas liquids production. The increase reflected significantly higher output both in the United States and in the Norwegian North Sea. Worldwide natural gas production was slightly higher than in 1978. A major increase in output from the Norwegian North Sea more than offset lower production in the United States.

The company's worldwide production of crude oil declined 7 percent from the 1978 level. Output increased slightly in the Norwegian North Sea, but declined in Indonesia, Nigeria and the United States. Oil production from Iran was completely eliminated by the internal struggles that troubled Iran throughout 1979. Higher prices for crude oil, as well as natural gas and natural gas liquids, more than offset the effects of lower production volumes. As a result of the company's accelerated program to find and develop more energy, the company's exploration costs — particularly expenses for dry holes and charge-offs of non-productive leases — increased 62 percent in 1979 to \$393 million.

Our refining, marketing and transportation business operated by the Petroleum Products Group experienced markedly better earnings in 1979. Better results were realized because of higher prices for petroleum products and large investment tax credits.

Earnings from the Chemicals Group exceeded previous high levels achieved in 1974 and accounted for 21 percent of the company's total net income. The results reflected both higher prices and increased sales volumes, stemming in part from greatly expanded ethylene and polyethylene capacity, and improved operating efficiencies.

### **Previewing 1980**

We are optimistic about our prospects for 1980. Our earnings are expected to be higher than those of 1979. Strong performance in our Natural Resources Group is expected to offset anticipated lower earnings in both our Petroleum Products and Chemicals Groups.

The Natural Resources Group is expected to benefit from both higher worldwide prices and major increases in worldwide production of crude oil, natural gas and natural gas liquids. The largest share of this increased energy output will come from the Norwegian North Sea, where we will experience the first full year of production from the seven fields in the Greater Ekofisk Development area. In the United States, natural gas and natural gas liquids production is expected to rise slightly, while crude oil output should hold about even with 1979 levels.

We anticipate lower earnings in our Petroleum Products Group because raw material costs are expected to rise faster than prices. However, we will begin to realize the benefits of major investment programs undertaken in recent years. Of particular importance will be the start-up of additional units at our expanded and modernized refinery at Sweeny, Texas. Our sales volumes of petroleum products in the United States will be affected to some degree by reduced output from the Borger, Texas, refinery, which was damaged by an explosion in January 1980. The impact of the accident was alleviated by having other refineries process crude normally handled at Borger and by trading crude for finished products.

The growth we have seen in our chemicals business in 1979 is not expected to continue into 1980, partly because U.S. economic activity is expected to slow down. We will continue to expand our production capacity in areas showing the greatest growth potential. An example is the current and planned expansion of our U.S. polyethylene capacity by 56 percent. In our overseas chemicals business, we will continue a program of selective growth as exemplified by our current plans to expand petrosulfur compound capacity in Belgium and the recently completed butadiene capacity in Spain.

The company's capital expenditures in 1980 are expected to reach a record level. Much of our spending will be directed toward increasing oil and gas production in the current year as well as providing the basis for additional production in subsequent years. Overseas, the focus will continue to be on the North Sea, where further development drilling in the Greater Ekofisk area will bring on additional oil and gas output. In the United Kingdom sector of the North Sea, we will move forward with bringing the Maureen oil field into production by late 1982.

In the United States, exploration will be directed toward high potential onshore areas such as the Rocky Mountain Overthrust Belt and newly acquired acreage off the East, West and Gulf Coasts and in Alaska's Beaufort Sea. Additional progress also will be made in developing our reserves of lignite coal, uranium and oil shale.

### **1970s: Energy Turning Point**

Phillips expanding effort to find and develop more domestic energy is reflective of an industrywide trend, a trend which will lead to a strengthening of the nation's energy security. The decade of the 1970s marked a major turning point in the country's energy supply situation as the nation moved from a position of relative security in energy to one of unstable dependence on foreign supplies. As America's reliance on imported oil has increased, the value of its currency has eroded and its national security and influence in world affairs have deteriorated.



The potential dangers associated with an over-dependence on foreign oil were pointed out throughout the 1970s by concerned authorities in both government and industry. Three presidents have emphasized the need to rebuild America's energy sufficiency. Yet when occasions arose for making the hard choices on national energy policies, the United States frequently selected the easy way out. We chose to import more oil to meet increased demand rather than adopt significant measures to encourage both conservation and increased domestic production.

As a consequence, the United States now faces an uncertain energy future... a future vulnerable to unpredictable price fluctuations and unforeseeable supply interruptions. The insecurity of imported oil supplies was underscored by last year's events in Iran and most recently by developments in Afghanistan, which placed the Soviet Union at the threshold of half the free world's oil supply.

### Reason for Optimism

As a result of our reliance on others for so much of our energy supplies, steps are being taken to rebuild our energy security. The government is in the process of decontrolling crude oil prices, which will allow domestically produced crude oil to gradually reach world oil price levels. Even though the decontrol process is just getting under way, the marketplace is already curbing demand for petroleum products. At the beginning of 1980, gasoline consumption was almost 5 percent below the level of a year earlier, and petroleum use was down 10 percent.

Responding to the incentives of decontrol, U.S. oil producers are making major efforts to find, develop and produce more energy. In 1979 more than 50,000 new wells were drilled, a 20-year record. Industry expenditures in the United States for petroleum exploration and development alone are expected to reach an estimated \$33 billion in 1980, 17 percent more than in the previous year.

Obviously, more domestic petroleum production is just part of the solution. Ways must be found to make greater use of coal, nuclear power, oil shale and geothermal power, as well as solar and other new sources. Nevertheless, domestic oil and natural gas must be available in adequate quantities to provide a bridge between today and the time, hopefully in the 1990s, when the country achieves a more diversified energy base.

The task ahead of us is a huge one. Progress is being made, but there are many potential obstacles. Environmental concerns may inhibit the development of some power sources such as nuclear and oil shale. Restrictive land use policies may limit the ability of energy companies to explore for resources in high-potential areas. Perhaps most important, the oil industry is concerned about whether sufficient investment capital will be available in the years ahead, given the magnitude of the task.

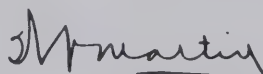
Certainly America has the means to overcome the energy dilemma. But to employ these means effectively will require a unity of purpose — a unity of purpose that joins government, private industry and the public in a spirit of cooperation. Such unity would provide the cohesive force needed to sustain the long drive toward greater U.S. energy sufficiency.

For the Board of Directors,



President and  
Chief Operating Officer

March 25, 1980



Chairman and  
Chief Executive Officer

# government impact statement

## Energy Security: A Question of Capital

The United States has made progress in establishing a consensus about its energy problem. There is growing agreement that the problem is real. There is substantial agreement that U.S. oil, gas, coal, uranium, oil shale and other resources are abundant and generally feasible for development. And there is overwhelming agreement that America must develop its own resources to increase its energy self-sufficiency.

Despite these areas of consensus, however, little headway has been made toward resolving two issues fundamental to rebuilding national energy security. First, there is lack of appreciation of the size of the energy investments that must be made. And second, there is uncertainty whether the energy industries — with petroleum companies leading the way — will have sufficient capital available in the years ahead to make investments necessary to fulfill the needs and public expectations for adequate energy supplies.

The cost of an energy-secure America is huge. Two recent studies by authorities outside the oil industry estimate that the cost simply to halt the slow decline in U.S. petroleum production would average \$90 billion a year over the next 10 years. By comparison, the U.S. petroleum industry's total cash generation in 1979 was about \$45 billion. This means there is a considerable shortfall between money being generated now and the capital that these authorities say should be invested in future oil and gas development.

Throughout U.S. history, industry of all types has relied on the marketplace to provide the capital needed for future investment. It still does, but more and more in recent years, the U.S. government has distorted the workings of the marketplace by using the petroleum industry as a tax-collecting mechanism. In doing so, government has reduced the funds that otherwise would be available for energy investments.

The latest such action is a petroleum revenue excise tax, mislabeled "windfall profits tax." When this tax is added to normal taxes and royalties, the federal government will receive about 80 to 85 cents out of each additional dollar of revenue brought about by decontrol of U.S. crude oil prices. In so doing, it will

take away at least \$227 billion from direct investments in finding and developing resources.

Earlier capital-depleting actions by the federal government have included:

- *Price controls on interstate gas* — In 1954 the Supreme Court decreed that the Federal Power Commission should regulate the price of gas sold between states. By holding prices artificially low, federal controls encouraged demand for gas while discouraging development of additional supplies of gas and other U.S. energy resources, notably oil and coal.

- *Price controls on crude oil* — Wage and price controls were imposed across the U.S. economy in 1971. Later, price controls were allowed to expire for all industries, except the oil industry.

- *Increased taxes on petroleum producers* — Responding to demands for "tax reform," Congress in 1969 reduced the percentage depletion provision for oil and natural gas. The provision was completely eliminated for major producers in 1975.

- *Price controls on intrastate gas* — Although called a "deregulation law," the Natural Gas Policy Act of 1978 extended federal price controls and regulations to intrastate gas, establishing a complex pricing system and allowing deregulation of only a few categories of gas by 1985.

Each of these government actions has been justified as being necessary to keep oil companies from getting "too much." But the popular image of the oil companies as excessively profitable or monopolistic is not accurate. Despite substantial earnings improvements this year, the industry's profitability over time has closely tracked the average of all U.S. manufacturing firms. And comparisons show the oil business is among the least concentrated of major American industries.

There is no question that the oil industry is currently experiencing good profitability. Many people would consider the industry's profits more than adequate. But the adequacy of profits can only be determined objectively by comparing profits with the magnitude of the investments needed to insure America's energy future.

As national decisions affecting the funding of energy investments are made, oil companies must and will comply with those decisions. The industry will continue to invest heavily in energy, using the financial means available. Yet from the standpoint of the national interest, the industry must express deep concern about whether its overall financial capability will be adequate to produce the energy that the American people will need and expect.



# natural resources

Natural Resources Group activities continue to emphasize finding and producing crude oil, natural gas and natural gas liquids. At the same time, the group is broadening the company's position in other energy fields by moving ahead with development of domestic lignite coal and uranium reserves and stepping up the evaluation of U.S. oil shale and geothermal holdings.

Net income rose to \$475 million from \$392 million in 1978 primarily because of higher worldwide oil and natural gas prices, as well as higher natural gas liquids production.

Natural gas liquids showed the strongest production gain, increasing 10 percent. Natural gas production remained about the same. The company's crude oil production declined 7 percent from the 1978 level. An increase in output from the Norwegian North Sea was not enough to offset lower production in the United States, Indonesia and Nigeria, and the suspension of production from Iran.

The company's expanded exploration program resulted in increased costs for dry holes and for non-productive lease charge-offs, principally in Alaska's Cook Inlet. In 1979 total dry hole costs and non-productive lease charge-offs rose 89 percent to \$252 million.

Petroleum exploration and production activities extended to 21 nations on six continents. Phillips drilled or participated in 87 oil and natural gas exploratory wells, of which 24 were discoveries. The company also participated in 112 other exploratory wells through farmouts. Under such arrangements, other firms drill on Phillips acreage in return for an interest in the acreage and any future production. The arrangements enable Phillips to broaden its exploration activities.

## Reserves

Estimated worldwide proved reserves of liquids (crude oil, condensate and natural gas liquids) decreased 10 percent to 1.2 billion barrels. Worldwide natural gas reserves declined 5 percent to 7.7 trillion cubic feet. Production exceeded additions to reserves from exploration and development programs. Revisions of previous estimates reflect the results of drilling and production performance in the United States and Europe-Africa, and the exclusion of Iranian crude reserves as a result of internal strife in that country. Also, the Nigerian government assumed a greater portion of Phillips reserve interest.

Phillips year-end reserve estimates are based on then current reservoir information, technology and economics. Estimates of proved reserves are reasonably certain, but such reserves cannot be measured precisely. Drilling and production results available subsequent to those used for 1979 year-end estimates are being evaluated. Studies in progress indicate a further reduction from 1979 year-end reserves shown on page 48 of approximately 5 percent in worldwide reserves for both liquids and natural gas.

Through a production-sharing contract with Indonesia, the company has access to an additional 5 million barrels of liquids and 19 billion cubic feet of natural gas.

In the United States, the company has access to additional reserves through contracts and other arrangements. At the end of 1979 these additional reserves of liquids totaled 356 million barrels, 2 percent higher than a year earlier. Additional U.S. reserves of natural gas totaled 2.3

Working on a drillship some 50 miles off the coast of Louisiana, these roughnecks play an important role in Phillips enlarged effort to find and develop more reserves of petroleum in the United States. As part of this effort, Phillips spent \$240 million for federal and state leases in 1979, which included tracts offshore California, the Gulf of Mexico, Georges Bank off the East Coast and in Alaska's Beaufort Sea.







trillion cubic feet at the end of 1979, 8 percent higher than the 2.1 trillion cubic feet reported a year ago.

### Prices

Phillips sold crude oil, natural gas liquids and natural gas for higher average prices in 1979. In the United States approximately 86 percent of our crude oil production was under federal price controls. Of this production, 48 percent was upper tier and 38 percent lower tier. North Slope production, which is included in the upper tier category, was 19 percent of Phillips total U.S. net output.

U.S. natural gas revenues rose 43 percent largely as a result of increases in government imposed price ceilings for natural gas sold in interstate commerce. Although all U.S. natural gas is now under federal price controls, prices for intrastate gas (gas produced and sold in the same state) were generally higher. In 1979 intrastate markets accounted for 30 percent of natural gas sales volume, compared with 28 percent in 1978. Phillips also realized higher prices for liquefied natural gas delivered under long-term contracts to two Japanese utilities from the 70 percent interest Kenai, Alaska, liquefaction plant.

### United States

Domestic crude oil output fell 3 percent in 1979. Output in the lower 48 states declined, but was partially offset by higher production from Alaska's North Slope. Phillips North Slope production rose 16 percent to an average of 22,700 barrels a day.

Reflecting an industrywide trend, Phillips U.S. natural gas production declined 5 percent, compared with the 3 percent decline in 1978. About 78 percent of Phillips gas production and 85 percent of its oil output came from onshore fields.

Phillips remained the second largest producer of natural gas liquids in the United States. Natural gas liquids production rose 6 percent. Phillips continued its program to extract more liquids from the natural gas it processes. At the end of the year, Phillips wholly or jointly owned a total of 55 gas processing plants in the United States.

Two actions by the federal government in 1979 resulted in an industrywide resurgence in seismic exploration and drilling in the United States: the decision to gradually phase out price controls on U.S. crude oil and the opening of new areas in the Outer Continental Shelf for exploration.

In direct response to these actions, Phillips increased its 1979 North America exploration and production authorization budget by \$100 million, and became an active bidder in five major offshore lease sales. The company's share of successful bids in these sales totaled \$212 million and involved tracts offshore California, the Gulf of Mexico, Georges Bank off the East Coast and Alaska's Beaufort Sea. Drilling in these offshore areas is expected to begin in 1980.

Major exploratory drilling efforts were concentrated in Alaska, the Gulf of Mexico and the Rocky Mountain Overthrust Belt.

In Alaska's Lower Cook Inlet, the company drilled two dry holes on acreage acquired in a 1977 federal lease sale. As a result of these unsuccessful wells, the company charged \$113.7 million of the original lease cost against current earnings, leaving an investment of \$58 million

The company accelerated its exploration of the Rocky Mountain Overthrust Belt, using portable seismic equipment developed by the Natural Resources Group, Research and Development and Applied Automation, Inc., a Phillips subsidiary. The belt, which extends from Canada to Arizona, cuts through this rugged area of central Utah. In the same region, Phillips was involved in exploratory drilling during 1979.









to be further evaluated. Drilling of the third well on the 34,000-acre area began late in the year.

In the Gulf of Mexico, Phillips drilled three unsuccessful wells in 1979 in the deep-water area of the Mississippi Canyon. At the end of the year, the company also was drilling a well in the East Cameron area, offshore Louisiana, and in the Karako Bay prospect of southern Louisiana.

Phillips accelerated seismic exploration of its 1.8 million net acres leased in the Rocky Mountain Overthrust Belt, a region that extends from Canada to Arizona. The region is believed to be one of the highest potential onshore areas for future oil and natural gas discoveries in the lower 48 states. The company had three seismic crews studying the geological makeup of the region. Through farmouts, one dry hole was drilled in Utah and another well was under way at the end of 1979. In addition, late in the year Phillips started an exploratory well in Idaho.

Approximately 53 percent of the company's U.S. oil production came from 423 secondary recovery projects. Secondary recovery is used when natural pressures can no longer force oil to the well bore. Water or gases are injected into the underground formation, pushing additional oil to the producing well. A more complicated and expensive method of recovering additional oil is through the process known as tertiary oil recovery. Phillips is the operator for six such projects in the United States, which in 1979 yielded Phillips an average of 1,100 barrels of oil a day.

### Canada

Phillips participated in the Whitefish discovery, a major gas strike in the deep-water area of the Canadian Arctic Islands. This well, drilled from a man-made ice platform, is the second important gas discovery of four exploratory wells in which Phillips has participated. Phillips has a 20 percent interest in the discovery. Further drilling is under way to evaluate the commercial potential of these reserves. In addition, an economical way to get the natural gas to market must still be found. Possibilities include building a pipeline to southeast Canada or northeast United States, or constructing a liquefaction plant in Canada and then transporting the liquid gas to market using ships.

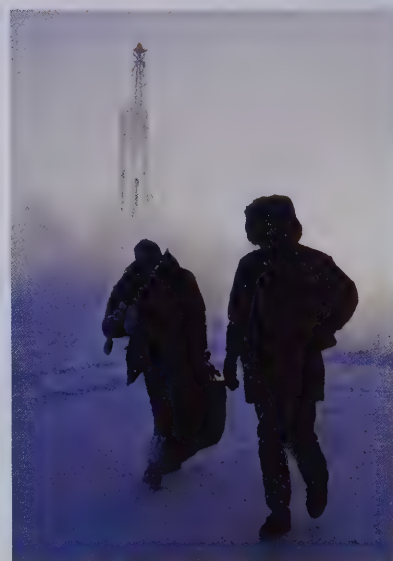
The company continued seismic and drilling work in one area and began a major evaluation program in another area of the Alberta heavy oil sands. Evaluation of the new area will be completed in about two years. While this type of oil does not flow naturally, it is not like tar sands, which requires mining and processing at the site. Heavy oil from these sands can be brought to the surface through a well bore and made to flow through a pipeline after its temperature is raised.

### Norway

The Greater Ekofisk Development in the Norwegian North Sea continues to be the focal point of Phillips worldwide natural resources activities. The seven-field area accounts for nearly a third of the company's total energy production.

During the year, the last three Ekofisk area fields were brought into production and natural gas liquids processing facilities at Teesside, England, went into operation. As a result, Greater Ekofisk Development production rose steadily during the year and in December Phillips share of production averaged 144,200 barrels of oil a day, 12,400 barrels a day of natural gas liquids and 460 million cubic feet a day of natural gas. For all of 1979, net production averaged 119,400 barrels a day of

Phillips is participating in this well located on a man-made "ice platform" in the deep-water area of the Canadian Arctic Islands. The well is drilling in the vicinity of the Whitefish discovery, the second major natural gas find made in this frigid region, where temperatures often drop to minus 50 degrees. Phillips has a 20 percent interest in the discoveries made thus far.







crude oil, 6,100 barrels a day of natural gas liquids and 384 million cubic feet a day of natural gas. Greater Ekofisk production should continue rising through 1980.

Natural gas output increased 23 percent and was the principal factor behind the company's higher worldwide natural gas production. Ekofisk area natural gas liquids production, which began during the year, also was a major contributor to the company's higher worldwide natural gas liquids production. Crude oil production increased slightly from the previous year. Operational delays and scheduled maintenance retarded oil production increases, although by late in the year a general rise in output was well under way.

The nine-company Phillips Norway Group has revised its estimate of the total cost of developing the Greater Ekofisk Development to \$5.8 billion from \$5.5 billion, primarily because of inflation and new Norwegian government requirements. The majority of this investment has been made. All major facilities are in place, although development drilling will continue through 1983.

### **United Kingdom**

A development program was begun in the Maureen Field in the North Sea about 160 miles northeast of Aberdeen, Scotland. Phillips began constructing a production and storage platform while at the same time moving ahead with development drilling. Oil production is expected to begin in 1982 and gross output, in which Phillips will have a 34 percent interest, is expected to reach about 75,000 barrels of oil a day. Near the end of 1979, the company tested three additional deeper zones, which may increase the field's total production.

Northwest of the Maureen Field, Phillips has a 35 percent interest in a discovery made during the year on the T-Block. The latest discovery, Tiffany, could be the first field brought into production if a development program proceeds as anticipated.

Phillips continued development drilling in its oldest North Sea project, the Hewett area fields, which have been in production since 1968. The Hewett area fields produced in 1979 an average of 101 million cubic feet a day of natural gas to the company's 19 percent interest.

### **Nigeria**

Phillips net production from Nigeria averaged 37,400 barrels of oil a day, 8 percent lower than in 1978. A new 100 percent interest field, Gilli-Gilli, brought into production late in the year, partially offset reduced output from the 18 other fields in which Phillips holds interests. The reduction occurred around mid-year when the Nigerian government reduced the company's interest in these fields to 20 percent from 22.5 percent and also mandated an across-the-board production cutback for all companies operating in Nigeria.

The company holds a share in significant proved, undeveloped natural gas reserves in Nigeria and is technical leader in a proposed liquefied natural gas plant, which may be built on the Nigerian coast. If the facility is constructed, the United States is seen as a major principal market.

### **Indonesia**

Production was severely reduced this year on Salawati Island as water heavily infiltrated producing wells. Net production for the year averaged 3,300 barrels of oil a day, down from 14,600 barrels of oil a day in 1978.

Oil and natural gas activities in the North Sea continue to dominate Phillips overseas operations. In the Norwegian North Sea (top), the Edda Field began producing in late 1979. It was the last of the seven Greater Ekofisk Area fields to be brought into production. Elsewhere in the North Sea, a drilling template (below) was towed to the Maureen Field in the United Kingdom sector. Using a unique drilling system involving this template, Phillips has been able to proceed with development drilling while production and storage facilities are being built.





A gas lift system was installed and should reduce the rate of decline in future years. Exploratory drilling will resume in 1980 on the 3.7 million-acre Teluk Berau contract area, in which Phillips has a 50 percent interest.

Drilling operations also are continuing in Northeast Kalimantan, where net production in 1979 averaged 2,800 barrels of oil a day. During the year Phillips acquired a 25 percent interest in a new 1.1 million-acre exploratory block in East Kalimantan.

At the end of 1979, Phillips was in the final stages of contract negotiations with Pertamina, the Indonesian state oil company, to acquire a 50 percent interest in two onshore blocks in East Irian Jaya totaling 9.3 million acres.

### **South America**

In central Bolivia the company drilled its third unsuccessful well. No other drilling is currently under way in South America, but the company is conducting seismic operations in Colombia and Chile. Phillips is negotiating for offshore acreage and assessing prospects in several other countries.

### **Other Exploratory Areas**

The rapid increase in crude oil prices has improved the economics of deep-water exploration. In 1979 the company participated in 12 deep-water wells.

During the year, the company completed two deep-water wells offshore Australia on the Exmouth Plateau. They were the company's first exploratory wells in the area and were in water more than 3,000 feet deep. The wells were dry holes. The company is continuing its drilling program in the 8 million-acre area, where it has a 20 percent interest.

In other offshore exploration, the company drilled its first exploratory wells in two major contract areas in the Philippines. Although the wells drilled in 1979 were unsuccessful, the company is continuing to evaluate more than 4 million acres held under various contractual arrangements.

Phillips is the operator for a group of companies conducting seismic operations off the coast of China. Two geophysical vessels began work there in late August. Parts of this area, as well as parts of six other areas, will be put up for competitive bidding in 1981.

### **Coal**

An expanded development drilling program began in 1979 to further define and evaluate some 20 major lignite deposits in seven Gulf Coast states, where the company's total reserves are estimated at more than 8 billion tons. Design and engineering for the first mine near Shreveport, La., reached an advanced stage. Initial mine construction is expected to begin in 1982 with lignite deliveries beginning in 1984. Under a sales agreement with a Louisiana utility, the company will supply 4.8 million tons a year over a 30-year period. Electric utilities are expected to be primary customers for lignite.

### **Uranium**

Phillips moved ahead with developing an estimated 25 million pounds of uranium oxide reserves located in northwest New Mexico. Two production shafts and a ventilation shaft were being sunk at the end of the year. Progress is behind schedule, but the company expects to meet the delivery timetable of the initial customer. Full production of 2 million pounds of uranium oxide a year from the first mine is now scheduled for 1985, instead of 1984.

The company is exploring for additional uranium reserves and now holds over 1.5 million acres of prospective lands in 11 states.

### **Other Energy Sources**

Phillips continued to discuss with several electrical utilities possible commercialization of steam from a geothermal reservoir in southwest Utah. Three other geothermal discoveries are being evaluated in western Nevada. The company is stepping up its efforts to produce energy from its oil shale tracts in Utah. In 1980 Phillips and its partners will be developing plans for a semicommercial pilot plant.

### **Outlook**

It is Phillips intention to expedite the development of its proven crude oil reserves, while at the same time increasing its efforts to find new reserves. In the United States, Phillips strategy is to re-evaluate mature oil fields for formations that may hold yet untapped reserves and to explore currently held acreages. Outside the United States, the company will concentrate its exploratory efforts in the Canadian Arctic Islands, the North Sea, Australia, western Africa, Indonesia and the Philippines. The company also plans to step up its efforts to find and develop energy resources other than oil and natural gas, mainly coal, uranium, geothermal and oil shale.

Phillips sees its production of petroleum liquids and natural gas continuing to rise in 1980 as a result of further increases from the Norwegian North Sea. Domestic oil production will remain about the same, while natural gas liquids output will increase slightly and natural gas production will increase a small amount. This slight rise in natural gas production is anticipated partly because of increased development drilling brought on by higher prices.

Development of an estimated 25 million pounds of uranium oxide reserves in northwest New Mexico moved ahead with the number one production shaft reaching the 2,100-foot level at the end of 1979, about two-thirds complete. The mine is expected to be in full operation by 1985.





## NATURAL RESOURCES

# statistics

### DRILLING STATISTICS\*

|                        | Exploratory |      | Development |      |
|------------------------|-------------|------|-------------|------|
|                        | 1979        | 1978 | 1979        | 1978 |
| UNITED STATES          |             |      |             |      |
| Gross Wells            | 20          | 10   | 578         | 505  |
| Net Wells              |             |      |             |      |
| Oil                    | 1           | —    | 69          | 36   |
| Gas and gas condensate | 1           | 2    | 39          | 41   |
| Dry holes              | 8           | 4    | 10          | 17   |
| Total United States    | 10          | 6    | 118         | 94   |

### OUTSIDE UNITED STATES

|                             |    |    |    |    |
|-----------------------------|----|----|----|----|
| Gross Wells                 | 67 | 53 | 38 | 11 |
| Net Wells                   |    |    |    |    |
| Canada                      | 17 | 1  | —  | —  |
| Latin America               | 2  | 2  | —  | —  |
| Europe                      | 2  | 4  | 10 | 2  |
| Africa                      | 5  | 4  | 1  | 1  |
| Southeast Asia              | 6  | 9  | —  | —  |
| Total Outside United States | 32 | 20 | 11 | 3  |

|                        |    |    |    |   |
|------------------------|----|----|----|---|
| Oil                    | 1  | 4  | 10 | 3 |
| Gas and gas condensate | 8  | 1  | 1  | — |
| Dry holes              | 23 | 15 | —  | — |

\*Excludes farmout arrangements.

### PETROLEUM LIQUIDS PRODUCED

|                     | Net Barrels Daily |         |
|---------------------|-------------------|---------|
|                     | 1979              | 1978    |
| UNITED STATES       |                   |         |
| Crude oil           | 121,400           | 125,000 |
| Natural gas liquids | 141,600           | 133,800 |
| Total United States | 263,000           | 258,800 |

### OUTSIDE UNITED STATES

|                             |         |         |
|-----------------------------|---------|---------|
| Crude oil                   | 166,700 | 185,400 |
| Natural gas liquids         | 6,300   | 200     |
| Total Outside United States | 173,000 | 185,600 |

### WORLDWIDE

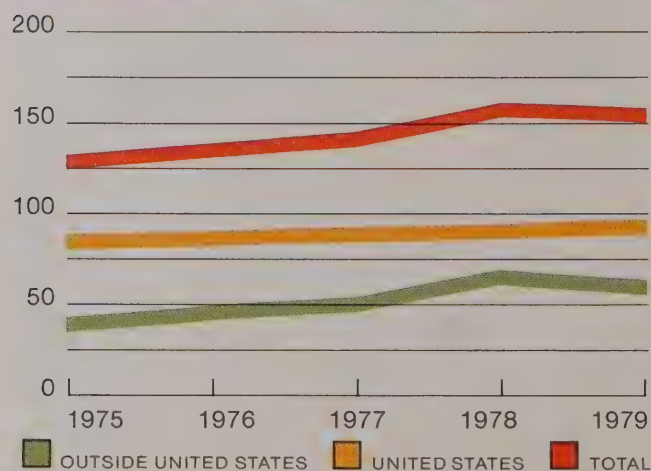
|                     |         |         |
|---------------------|---------|---------|
| Crude oil           | 288,100 | 310,400 |
| Natural gas liquids | 147,900 | 134,000 |
| Total Worldwide     | 436,000 | 444,400 |

### AVERAGE PRICES – Petroleum Liquids and Natural Gas

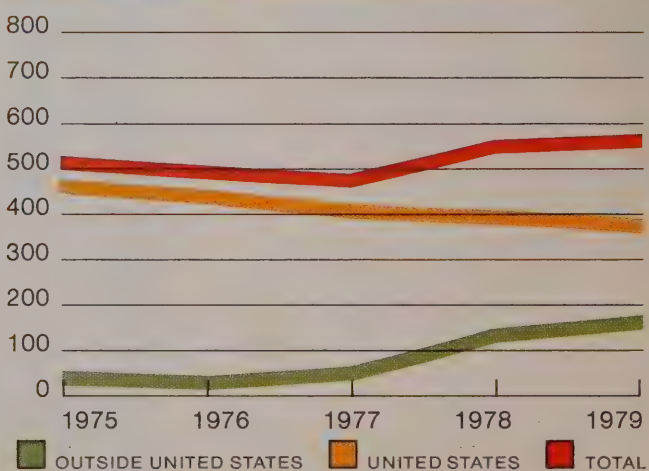
|   | 1979     | 1978    |
|---|----------|---------|
| CRUDE OIL (per barrel)  |          |         |
| United States   | \$ 11.79 | \$ 8.45 |
| Norway (landed Teesside)  | 21.69    | 13.94   |
| Nigeria (export sales)  | 22.30    | 14.11   |
| NATURAL GAS LIQUIDS   |          |         |
| United States (per barrel)  | 7.64     | 6.93    |
| NATURAL GAS   |          |         |
| United States* (per thousand cubic feet)                                | 1.34     | .88     |
| United States* (converted to barrels of oil on energy equivalent basis) | 7.82     | 5.13    |

\*Excludes sales of liquefied natural gas from Kenai, Alaska.

### CRUDE OIL AND NATURAL GAS LIQUIDS Net Production – Millions of Barrels



### NATURAL GAS Net Production – Billions of Cubic Feet



## NET OIL AND GAS ACREAGE AT YEAR-END

### UNITED STATES

|                  |                  |
|------------------|------------------|
| <b>Total</b>     | <b>6,157,000</b> |
| <b>Producing</b> | <b>1,247,000</b> |

### OUTSIDE UNITED STATES

|  |                   |
|--|-------------------|
| Canada                                 | 2,672,000         |
| Latin America                          | 18,134,000        |
| Europe                                 | 2,962,000         |
| Africa                                 | 9,669,000         |
| Middle East                            | 19,000            |
| Southeast Asia                         | 5,911,000         |
| Australia                              | 1,658,000         |
| <b>Total Outside United States</b>     | <b>41,025,000</b> |
| <b>Producing Outside United States</b> | <b>246,000</b>    |

## PHILLIPS WORLDWIDE ENERGY ACTIVITIES

- NEW LEASES — 1979
- DISCOVERIES — 1979
- MAJOR DEVELOPMENT AREAS
- MAJOR EXPLORATION AREAS
- URANIUM DEVELOPMENT
- LIGNITE DEVELOPMENT
- OIL SHALE PROJECT





# petroleum products

The Petroleum Products Group secures crude oil and natural gas liquids, moves these raw materials by ship, pipeline and other transportation systems, operates refineries to convert these materials into usable products and markets these products through distribution terminals primarily to independent wholesalers and service station dealers. This business is undergoing considerable change as the company adapts to new worldwide supply conditions and changing consumption patterns.

Net income in 1979 rose to \$206 million, compared with \$49 million in 1978. Among non-operating items contributing to the better performance were a significant investment tax credit related to expansion of the Sweeny, Texas, refinery and the sale of preferred stock interest originally received as partial payment for Phillips West Coast facilities sold in 1976.

The key operating factor contributing to profitability was improved margins for petroleum products in both the United States and overseas operations.

## Feedstock Supplies

Crude oil was in tight supply all year. Prices for world market oil and U.S. crude not under price controls reached record levels.

Crude oil produced in the United States accounted for 62 percent of domestic refinery runs, compared with 68 percent in 1978. Phillips imported crude oil came from Norway (North Sea), Nigeria, Mexico, Iran, Libya, Saudi Arabia, Venezuela, Algeria, Ecuador and other nations. More than half of this imported oil came from Nigeria, partly because Phillips was able to advantageously exchange some North Sea oil for Nigerian oil. Suspension of oil exports from Iran to the United States in late 1979 had no significant effect on crude supply for Phillips domestic refining operations.

## Transportation

To bring foreign crude to Phillips U.S. refineries more efficiently, the company began using three new 51,000-ton tankers. Three other such vessels are scheduled for delivery from Japanese shipbuilders in the first half of 1980. The new tankers replace older, smaller, chartered ships and are designed to move oil to Phillips terminal at Freeport, Texas, from Caribbean transshipment points and Latin American nations.

The carrying capacity of each new tanker can be increased nearly a third by separating the vessel in the middle and adding a new cargo section. Phillips plans to utilize the additional capacity in the mid to late 1980s when a deepening and widening of the channel into Freeport terminal is anticipated to be completed.

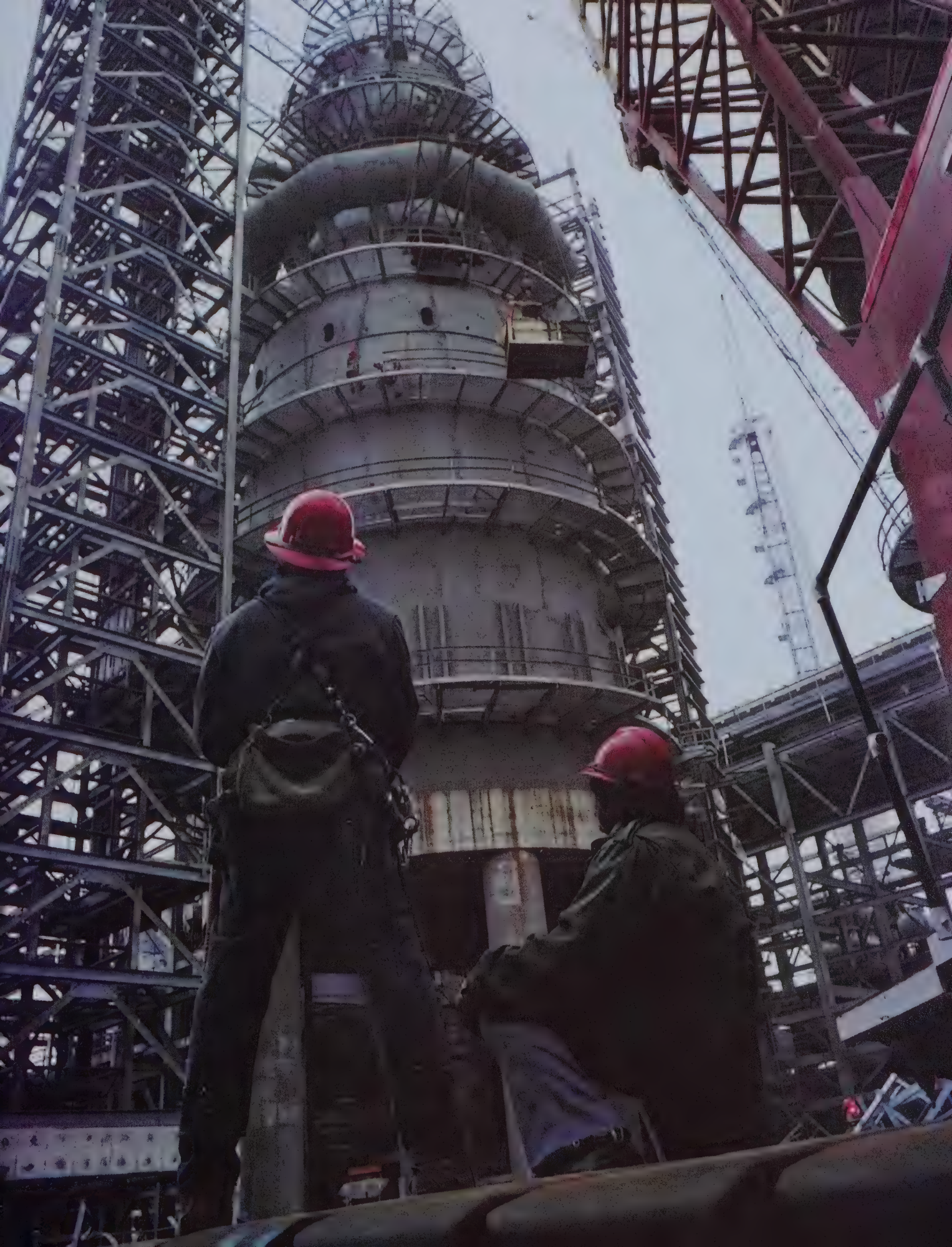
Phillips also purchased its second very large crude carrier (VLCC), the 229,000-ton *Phillips Enterprise*. This vessel, along with the company's other VLCC, the *Phillips America*, will be used for moving crude oil to transshipment points for delivery to U.S. refineries and occasionally for chartering to other companies.

To process more imported crude oil through the expanded Sweeny refinery, Phillips is improving and expanding the Freeport terminal, a project to be completed in 1980. The company also increased its pipeline capacity between the terminal and the refinery, and between the refinery and Houston area distribution facilities.

The company authorized adding some 420 miles of new 16-inch pipeline to replace an older, smaller diameter line from Borger, Texas, to Paola, Kan.

When the modernization and expansion program at the Sweeny, Texas, refinery is completed in 1980, Phillips U.S. refining capacity will be expanded by almost a third. A major unit in the refinery is this heavy oil cracker.







The project, scheduled for completion in late 1980, will cut costs by reducing energy consumed in pipeline pumping operations. This pipeline segment is part of a larger system which moves refined products and liquefied petroleum gases to the upper Midwest.

### Refinery Operations

The first phase of the Sweeny refinery modernization and expansion program, authorized in 1977, was completed late in the fourth quarter of 1979. This phase involved start-up of a new crude distillation unit, allowing increased crude runs of about 40,000 barrels a day. This new unit produces primarily naphtha and distillates. When the program is completed in late 1980, the refinery's capacity will be raised to 190,000 barrels a day from 97,000 barrels a day. This expansion will increase Phillips U.S. refining capacity by nearly a third.

The company is placing heavy emphasis on using its technology to convert lower quality, lower priced crude oils into high-value products, such as gasoline, distillate fuels and jet fuel. Lower quality crude oils now constitute an increasing portion of the world's remaining oil reserves. Process units are being installed at the Sweeny refinery to enable the company to use such crudes and a study is under way to evaluate a similar, though smaller scale, project at the company's refinery in Borger, Texas.

Also at Sweeny, a new unit was authorized to produce methyl tertiary-butyl ether (MTBE), a high-octane additive, which will increase the refinery's capability to make unleaded gasoline.

Phillips U.S. refineries operated at high rates, within the constraints of diminished crude supply, lower crude quality and downtime for essential construction and maintenance. Major construction and maintenance projects particularly affected the Sweeny and Kansas City, Kan., refineries. The company's rated refining capacity was lowered to 302,000 barrels a day from the 1978 level of 323,000 barrels a day, mainly because the heavier crude oil feedstocks now being used decreased overall refinery throughput capacity. Based on the new rate, Phillips domestic refineries operated at 95 percent of capacity for the year, compared with an industry average of 85 percent.

In addition to crude oil runs, daily natural gas liquids processing rates averaged 99,100 barrels a day at Borger and 53,300 barrels a day at Sweeny. Overall, NGL runs were 10 percent higher than a year ago.

The cost of crude delivered to Phillips U.S. refineries averaged \$20.03 a barrel in 1979, which represented a 48 percent increase over 1978. This increase was primarily the result of significantly higher world crude oil prices, plus the phased decontrol of U.S. crude oil, which began June 1.

The federal entitlements program, implemented in 1974 to distribute the cost advantage of price controlled domestic crude oil to all refiners, caused Phillips average cost of crude oil in 1979 to be raised \$1.01 a barrel. Natural gas liquids cost increased about 17 percent to \$8.54 a barrel.

### Marketing Operations

Although sales volumes were somewhat lower than in 1978, product revenues increased 39 percent, reflecting higher prices for principal refined products. Sales volumes for gasoline were 12 percent lower as a result of tight supply and high prices in the gasoline spot market.

Distillate sales were slightly higher than 1978 sales. Changes in federal

*The Phillips Mexico was the first of six new tankers to bring foreign crude to the company's U.S. refineries. Three of the new tankers went into operation in 1979, and the remainder are expected to be delivered in 1980. The company also increased its pipeline capacity between the company's Gulf Coast shipping terminal, the Sweeny, Texas, refinery, and inland processing and distribution facilities.*







allocation regulations on short notice during the early summer forced temporary disruptions in some distillate deliveries.

Primarily because of significant increases in raw material and operating costs, the company's average wholesale prices increased 18 cents a gallon for gasoline and 17 cents a gallon for distillates.

Phillips marketing operations have been undergoing a complete reorganization and streamlining since 1976, which has increased efficiency in service station operations. A total of 54 marginal marketing outlets were closed in 1979.

The company began test marketing gasohol, a blend of 10 percent ethanol and 90 percent unleaded gasoline, in a number of company stations in Nebraska, Iowa and Oklahoma. Gasohol is price competitive with other gasoline in those states because of government exemptions from federal and state gasoline taxes.

Phillips strengthened its position in aviation lubricants with the introduction of X/C Aviation Multiviscosity oil, which eases engine starting at low temperatures while protecting against engine wear at high temperatures.

### Outlook

The cutoff of imports from Iran and an unstable international crude oil market create uncertainty for 1980. Although the world crude oil supply situation may come back into balance, it is unlikely that major oil-producing nations will allow a surplus to develop.

Phillips own foreign crude oil production comes mainly from the more secure, stable areas of the world, giving the company a relatively favorable supply position. Furthermore, the company's increasing oil production from these areas strengthens its ability to provide domestic refineries with sufficient feedstock, barring government-imposed import constraints or crude-sharing arrangements that would work to the detriment of the company.

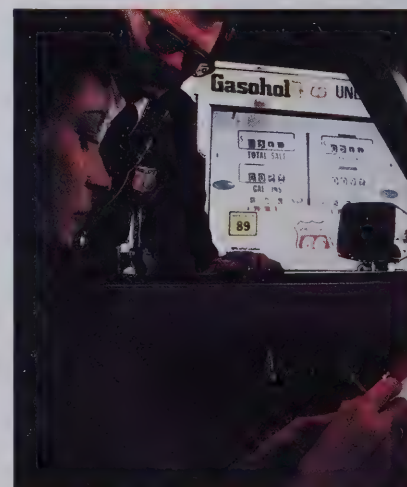
Product prices are expected to continue increasing because of escalating costs for imported and domestic crude, and natural gas liquids. Tight supply and higher prices should continue to restrain general demand for petroleum products.

Phillips distillate supply in 1980 should improve with the phased start-up of the Sweeny refinery expansion, assuming adequate feedstock supplies are available.

Phillips deliveries of gasoline until late 1980 are expected to be about the same as 1979. However, late in the year when additional units at the Sweeny refinery expansion begin operating, deliveries will increase.

For the longer term, Phillips plans to continue improving the processing flexibility of its refineries, upgrading its transportation systems and consolidating marketing facilities. Major emphasis will be placed on developing long-term, reliable supply arrangements for crude oil and natural gas liquids feedstocks. Wherever possible, the company will work to establish mutually beneficial relationships with oil-producing countries in need of technological assistance. These strategies are designed to provide the flexibility needed to meet the uncertain supply conditions of the 1980s.

Phillips began test marketing gasohol in 1979 to determine if motorists would buy the blend of ethanol and unleaded gasoline in sufficient quantity to warrant making the product available on a permanent and wider-scale basis.



## PETROLEUM PRODUCTS

# statistics

### FEEDSTOCKS PROCESSED AND PRODUCTS PRODUCED

Average Percent  
1979

#### FEEDSTOCKS

|                            |     |
|----------------------------|-----|
| Domestic crude oil         | 38% |
| Imported crude oil         | 24% |
| Natural gas liquids        | 33% |
| Miscellaneous hydrocarbons | 5%  |

#### OUTPUT

|                     |     |
|---------------------|-----|
| Automotive gasoline | 40% |
| Chemical feedstocks | 15% |
| Distillates         | 20% |
| Consumer LPG        | 14% |
| Other products      | 11% |

### PETROLEUM PRODUCTS SOLD

Average Barrels Daily  
1979 1978

#### UNITED STATES

|                         |         |         |
|-------------------------|---------|---------|
| Automotive gasoline     | 220,000 | 250,000 |
| Liquefied petroleum gas | 100,000 | 92,000  |
| Distillates             | 82,000  | 82,000  |
| Aviation fuels          | 24,000  | 27,000  |
| Other products          | 32,000  | 32,000  |

**Total United States** 458,000 483,000

**Total Outside United States** 50,000 33,000

**Total Worldwide** 508,000 516,000

### CRUDE OIL CAPACITIES AND RUNS – 1979

Average Barrels Daily  
CAPACITY RUNS

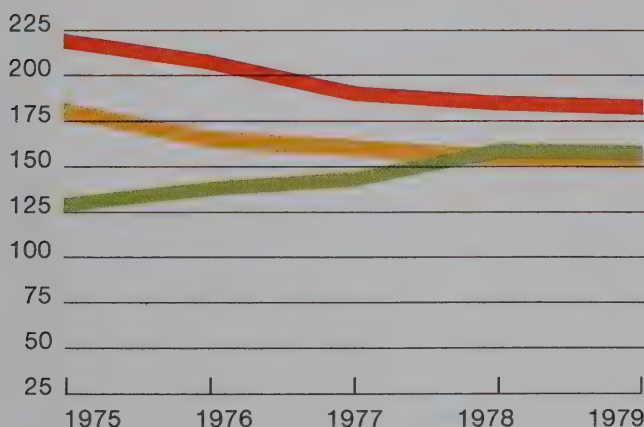
#### REFINERY

|                      |         |        |
|----------------------|---------|--------|
| Sweeny, Texas        | 97,000* | 91,000 |
| Borger, Texas        | 97,000* | 94,000 |
| Kansas City, Kansas  | 78,000* | 72,000 |
| Woods Cross, Utah    | 24,000  | 24,000 |
| Great Falls, Montana | 6,000   | 6,000  |

**Total** 302,000 287,000

\* Reduced from 1978 because of heavier crude oil feedstocks. Does not include additions to Sweeny operating capacity to result from current expansion.

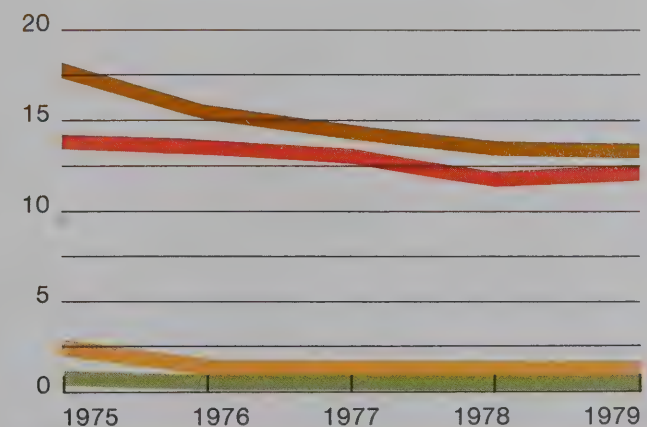
### PETROLEUM PRODUCTS SOLD, REFINERY RUNS, CRUDE OIL AND NATURAL GAS LIQUIDS PRODUCED – Millions of Barrels



■ CRUDE OIL AND NGL PRODUCED
 ■ REFINERY RUNS
 ■ PETROLEUM PRODUCTS SOLD

### PETROLEUM MARKETING OUTLETS

Thousands



■ COMPANY OUTLETS
 ■ JOBBER OUTLETS
 ■ DIRECT DEALER OUTLETS
 ■ TOTAL



The Chemicals Group, which uses petroleum-based feedstocks to manufacture intermediate and finished chemical products, provided 21 percent of total company earnings in 1979. This compared with 8 percent in 1978. Net income rose to \$185 million from \$60 million, exceeding the group's record performance achieved in 1974.

The group's improved performance was attributable to generally better prices and higher sales volumes. Price increases were sufficient to recover appreciably higher raw material costs.

The group's higher sales volumes stemmed from the combination of strong demand for most products and increased production capacity in two major product lines, ethylene and polyethylene. In 1979, the company achieved the first full year of production from its expanded ethylene facilities at Sweeny, Texas, where capacity was doubled to two billion pounds a year. Additional capacity to produce Marlex polyethylene at Adams Terminal near Houston went into operation, raising the company's total domestic capacity to 940 million pounds a year. Also at Adams Terminal, a 120 million pound-a-year K-Resin plastic resins plant was completed.

## Basic Petrochemicals and Specialty Chemicals

The new ethylene capacity on stream for the entire year, plus improved markets for most product lines, produced a significant 70 percent increase in revenues for basic petrochemicals and specialty chemicals.

Demand for cyclics — cyclohexane, paraxylene and orthoxylene — was strong throughout the year. The company sells most of its cyclics production to others for the production of nylon and other synthetic fibers.

The company's complex near Guayama, Puerto Rico, improved its operating results because higher finished product prices enabled it to obtain increased supplies of naphtha feedstock. The complex operated at 94 percent of capacity, compared with 85 percent a year earlier.

Specialty chemicals results improved in 1979. Compared with 1978, revenues from high-purity hydrocarbons, solvents, sulfur chemicals and hydrocarbon propellants increased while revenues from drilling mud additives declined. The Custom Oil Recovery Technology Company (CORT), a new 50 percent owned partnership which markets enhanced oil recovery systems, made its first commercial sales of chemicals.

## Plastics

All of the company's plastic resins operations turned in improved performances in 1979.

Revenues from polyethylene plastic resin activities rose substantially because of higher volumes and prices. Prices reflected higher feedstock costs. Volumes rose because of increased capacity and higher demand.

Sales of polypropylene resins increased. These resins are used primarily for injection molding, blow molding and fiber applications.

K-Resin and Ryton continued to gain wider acceptance in U.S. and international markets. Markets for K-Resin range from packaging to medical applications, while Ryton is making inroads in the automotive, appliance and electronic fields.

All company operations related to compounding of plastic resins have

One of Phillips fastest growing chemical product lines is polyethylene pipe. The product line ranges from one-half-inch diameter pipe used in oil and natural gas field gathering systems to 48-inch diameter pipe used in municipal sewer systems. In 1979 this new plant in Startex, S.C., went into production, and plans were made to build the sixth U.S. plastic pipe plant near Chandler, Ariz.





been merged into the American Thermoplastics Corporation. To improve the operating efficiency of this business, the Bound Brook, N.J., plant was closed and the firm's headquarters was moved to Houston, where it operates large compounding and concentrate facilities.

### **Rubber Chemicals**

Non-tire rubber sales, which represent a growing percentage of total rubber sales volumes, gained in 1979. Major non-tire uses for Solprene rubber include plastics modification, asphalt modification, footwear and adhesives.

Sales of carbon black, a rubber reinforcing agent used primarily in the tire industry, continued strong despite the automotive industry slowdown.

### **Consumer Products**

Sales of consumer and related products were up 18 percent in 1979.

Business was particularly strong at Phillips Driscopipe, Inc., a plastic pipe subsidiary. The new Startex, S.C., plant went into production at mid-year. Another plant was authorized for construction in Arizona, primarily to serve western markets. When this plant is completed in 1981, Driscopipe will be produced in six U.S. plants and one facility in Canada.

Sealright Co., Inc., a maker of paperboard and plastic containers for the packaging industry, increased its sales in 1979. Showing strongest sales gains were the Convocan and Ultrakan in-plant container fabrication systems. These systems, for example, are installed in the plants of dairy and food producers, reducing their transportation and inventory costs.

Phillips Products Co., Inc., industrial division's sales increased slightly. Its major lines continued to be Garden Scene planterware, handling products for the poultry and baking industries and custom molding.

Revenues from H. P. Smith Paper Co., a film and paper coating subsidiary, rose 18 percent. Much of this gain was attributable to its line of Polyslik products.

A facility for making larger size stainless steel tubing went into production at Wall Tube and Metal Products Co. This enabled the metal products firm to expand its market base.

In early 1980 Phillips acquired Interplastic Corporation, a company in the polyester resins field. Its products, which can be used to make such items as automobile hoods, grills and trunk lids, appear to hold promise in current efforts toward increasing automobile fuel economy by reducing car weight.

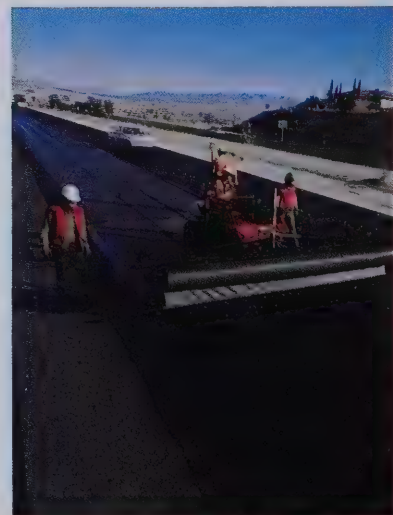
### **Fertilizers**

Poor spring weather brought a discouraging start to Phillips nitrogen fertilizer business in 1979, but demand improved later in the year. Sales volumes in 1979 were higher, but price increases were insufficient to recover added feedstock costs.

### **Fibers**

Sales revenues increased 6 percent as olefin fiber production exceeded all previous years. A Rocky Mount, N.C., plant was converted to olefin fibers production primarily for the growing upholstery market. It began operating in late 1979.

Petromat, a non-woven polypropylene fabric that strengthens asphalt paving, is gaining wider acceptance as an underlining for roads, aircraft runways and bridge decks. Using installation equipment specially designed by Phillips, workers place Petromat on a section of I-15 near Barstow, Calif.



Two plants of Revonah Spinning Mills, a subsidiary, were sold, further streamlining Phillips Fibers role as a major olefin fibers producer. Growth continued in non-woven fabrics, particularly in furniture, automotive and civil engineering markets.

### Outlook

Phillips continues to expand its chemicals business in areas where markets appear strongest and where the company's strengths can be used to greatest advantage. Many economists forecast that recessionary pressures in 1980 will dampen U.S. chemical demand. Nevertheless, Phillips should be able to minimize the negative effects of a downturn through its diversity and its emphasis on product lines that tend to grow at an average annual rate in excess of the general economy.

By far the largest single expansion under way is the addition of 450 million pounds a year of Marlex polyethylene capacity. Announced late in the year, the expansion is scheduled to be completed by 1981. Chemical feedstocks, plastic resins, plastic products and specialty chemicals appear to have excellent growth potential over the near term.

### PRINCIPAL CHEMICAL PLANT EXPANSIONS

| Product   | Location             | Phillips Interest | Additional Gross Annual Capacity |
|---|----------------------|-------------------|----------------------------------|
| <b>COMPLETED DURING 1979</b>                        |                      |                   |                                  |
| High-density polyethylene*                          | Pasadena, Texas      | 100%              | 30,000,000 pounds                |
| Butadiene-styrene polymers †                        | Pasadena, Texas      | 100%              | 120,000,000 pounds               |
| Butadiene   | Puertollano, Spain   | 45%               | 110,200,000 pounds               |
| Carbon black  | Borger, Texas        | 100%              | 15,000,000 pounds                |
| <b>UNDER CONSTRUCTION OR AUTHORIZED AT YEAR-END</b> |                      |                   |                                  |
| Carbon black  | Toledo, Ohio         | 100%              | 23,500,000 pounds                |
| Benzene   | Guayama, Puerto Rico | 100%              | 12,000,000 gallons               |
| Petrosulfur compound †                              | Tessenderlo, Belgium | 100%              | 22,100,000 pounds                |
| High-density polyethylene*                          | Pasadena, Texas      | 100%              | 530,000,000 pounds               |
| Carbon black  | Borger, Texas        | 100%              | 20,000,000 pounds                |
| Synthetic rubber                                    | Borger, Texas        | 100%              | 23,100,000 pounds                |

\*Plant can also produce low-density polyethylene

†New plant



Phillips research activities continue on basically three broad fronts. One, to develop scientific methods that will enhance the company's chances of finding new reserves of petroleum. Two, to develop processes that make more efficient use of hydrocarbon feedstocks and, three, to develop innovative products. Indicative of the expanding scope of these activities, the company in 1979 started the second phase of a major expansion and modernization program at the Bartlesville Research Center. When completed in 1981, the expansion program will double the size of the center's facilities.

## **Products and Processes**

Two separate research achievements may help car manufacturers improve automobile fuel economy. In 1979 one automobile manufacturer began test marketing auto body parts made from a polyester plastic modified with a Phillips Solprene synthetic rubber. The plastic does not break easily when hit and can be made to look like smoothly finished metal. If tests are successful, the new plastic could be used to make auto body parts such as front ends, hoods and trunk lids. This would effectively reduce weight and improve fuel economy.

A process was developed for coating electronic components such as capacitors and integrated circuits with Ryton, an engineering plastic resin. When encased in this plastic, the electronic components can be used in hot, potentially corrosive places such as on or near an automotive engine and in factories. Fuel economy can be improved by using these miniature electronic components to control an engine's fuel use.

## **Fuels and Lube Research**

Phillips research led to the development of a burner designed to burn shale oil and other high-nitrogen fuel oils without exceeding federal air emission standards. The two-stage burner for use in industrial furnaces is the first product of its type. An outside company has been licensed to make and sell the equipment.

Research and pilot plant work was completed on a proprietary process for making methyl tertiary-butyl ether (MTBE), a gasoline additive that increases octane rating. On a rush basis, the company built the industry's first commercial unit to produce this product, while also making its MTBE technology available for licensing.

Major energy savings are expected to come from a new gasoline additive that reduces the need for car owners using regular unleaded gasoline to eventually switch to higher octane premium unleaded gasoline. As cars grow older, carbon residues build up in the engines, resulting in the need for higher octane fuels to eliminate engine knock. The Phillips additive, now being tested, prevents the build up of residues.

## **Exploration and Production Research**

Research continued to add to knowledge on where and how to find oil, natural gas and other minerals.

A Phillips development now allows explorers to better determine the source of various crude oils through the study of chemical "fossils" — what survives today from the ancient marine plants that led to the formation of petroleum. Information on the source of crude oil increases understanding of how and where oil was formed, and how it moved over time to rock formations that could serve as reservoirs. Using this new technology, Phillips scientists found that the oil contained in the

Phillips Re-refined Oil Process (PROP) plants are self-contained, skid-mounted units which can be easily moved to customer locations on railway flatcars. The plants repurify waste motor oils rapidly into products meeting specifications for high-grade original oils. Phillips has sold plants in the United States and other countries.

Ekofisk Field in the Norwegian North Sea migrated from rocks at least 135 million years old, twice as old as previously believed.

Development of subsurface mapping methods advanced as a result of continued experimentation with a technique called vertical seismic profiling. By supplementing traditional seismic information with data gathered from equipment placed within wells, scientists and engineers can develop more precise subsurface geological maps.

Research teams continued to analyze the results of the polymerflooding project at the Smackover Field in southern Arkansas in order to learn more about enhanced recovery of heavy oil. Experiments in Oklahoma and southern Louisiana furthered the information available on how to overcome the corrosion associated with producing crude oil from deeper and hotter underground formations. Coating the drill pipes with a new plastic-like chemical appears promising in preventing corrosion.

#### **Patents and General**

Phillips obtained 232 U.S. patents ranking it second in the number of U.S. patents issued to an oil company. Also, during 1979 Phillips was issued 207 foreign patents. At the end of the year, Phillips owned 6,125 active U.S. patents, the largest number held by any petroleum company. Phillips also owns 3,036 active foreign patents and its technology is licensed in 35 countries.





# corporate citizenship

The company and its people engaged in many activities to meet two objectives: being a responsible corporate citizen, and increasing public understanding of the problems and challenges facing Phillips and the petroleum industry.

## Communications

Company executives accepted 250 invitations to talk about Phillips activities and the nation's energy situation. This was twice the number of such appearances made during the previous year and four times the number made in 1973, the year America's energy problem began to receive wide public recognition.

Most speaking engagements were accompanied by radio, television and newspaper interviews, and meetings with energy writers and editorial boards. The company's intensified efforts in media relations are designed to make Phillips management more accessible to the news media, and thereby provide greater exposure of company viewpoints.

## Education and Youth

The *American Enterprise* economic film series, now in its fourth year, continues to reach more than a million students a month during the school year. The series has been shown in 62 percent of all U.S. secondary schools, making it the most widely seen educational film series ever made.

Another Phillips-funded film series, *Search for Solutions*, was completed and distributed initially in six states. The aim of this series of nine educational films is to increase the general awareness of accomplishments made through science and technology and to interest students in careers in scientific and technological fields.

Improvements were made in the Employee Matching Gift Plan, which helps support higher education. For every dollar an employee contributes to an eligible college or technical school, the company now contributes two dollars. Formerly the company matched employee gifts dollar for dollar. In addition, the plan was opened to retirees and the maximum for yearly individual gifts matched was increased from \$2,000 to \$3,000.

As part of the company's long-time support of amateur athletics, swimming and diving clinics were organized and sponsored in cooperation with park and recreation departments in 20 U.S. cities. More than 8,000 young people participated in these clinics, which serve as stepping stones to competitive swimming. Coaching clinics were held in the United Kingdom, Norway and Scotland in a continuing effort to advance amateur swimming. In addition, the company continues as the U.S. sponsor of Amateur Athletic Union senior swimming and diving.

## Community Service

The company's Distinguished Community Service Award was presented to 135 employees for outstanding service in their communities. More than 850 employees have received this honor since the program began in mid-1974.

Phillips contributions to educational, health, cultural, youth, community and public interest organizations rose 70 percent over 1978 to a total of more than \$5 million.

## Energy Conservation

Phillips formally established an energy conservation program in mid-1973. Since then the company's rate of energy consumption has been

A new Phillips-funded film series, *The Search for Solutions*, is a global look at the shirtsleeve experience of science. In particular, it shows students why science is a key to solving many of the world's problems. Each of the nine films highlights a specific scientific concept, as shown by these three photographs.



MODELING  
PREDICTION



reduced 19 percent. In 1979 alone, total energy savings amounted to an equivalent of 1.6 million barrels of oil, enough to provide fuel and electrical energy for 40,000 average homes for a year. If converted to gasoline, this amount of energy would be enough to fuel 83,000 cars for a year. The company has invested or committed more than \$170 million in energy-saving projects in the past seven years.

Toward the end of the year, a pilot program was started which enabled employees at the Phillips headquarters in Bartlesville to commute to work in company vans rather than their private automobiles. This program is expected to provide energy savings of 32,000 gallons of gasoline a year.

### Environmental Protection

Worldwide capital expenditures committed to environmental protection during 1979 totaled \$116 million. Another \$66 million was spent to operate and maintain existing environmental controls.

A program was completed and approved by the federal government to assure that the major expansion at the Sweeny, Texas, refinery will not increase the refinery's overall emissions.

A major study was completed on the environmental impact of a planned lignite coal mine in a predominantly agricultural region near Shreveport, La. The study indicates that modern land reclamation techniques will insure that crop yields will be equal to or better than current yields.

TRIAL AND ERROR





Employment rose 1 percent, bringing total company employment to 30,300. The company's employment in the United States declined slightly, while expanding operations elsewhere created more job opportunities for people living in other countries. At the end of 1979, Phillips employed 4,500 people who were citizens of countries other than the United States.

At the end of the year, women accounted for 21 percent of the company's U.S. employees. The company is also continuing its efforts to hire more members of minority races. At the end of the year, members of racial minorities accounted for 14 percent of Phillips U.S. employees.

### **Employee Training and Development**

Strong emphasis continued to be placed on recruiting, training and developing qualified people. These people are needed to fill positions resulting from the company's worldwide expansion and growing losses of experienced employees due to retirement. It has become especially important to prepare for replacing large numbers of well-qualified employees who will be retiring over the next 15 years.

Recruiting activities were expanded on campuses. During 1979 the company hired 616 college graduates, compared with 523 recruited a year earlier. Most graduates hired were in the fields of business, engineering and science.

Almost 14,700 Phillips people, 48 percent of the company's work force, participated in training and development programs. The programs focused on training and developing people for operating, craft, technical and managerial positions. Programs for managerial positions stressed effective techniques for leadership, business operation and increasing productivity. Another training effort concentrated on methods to enable managers to more effectively interpret and administer government regulations.

Training and development programs included on-the-job training and company, college and vocational courses. More than 1,000 employees received financial support from the company's educational assistance plans to take college or vocational courses.

Greater employee participation in work planning and individual performance reviews provided employees with a better understanding of what is expected of them on their job. Progress was made in a continuing program to determine the factors affecting employee job satisfaction and productivity.

### **Suggestion Plan Results**

Under Phillips Suggestion Plan, nearly 4,000 suggestions were adopted in 1979, amounting to \$461,080 in cash awards. Awardable suggestions increased productivity and in just the first year resulted in estimated tangible savings of \$4.9 million.

### **Safety and Health**

As part of the company's safety program, a team of safety professionals, operating on a worldwide basis, provided guidance on accident prevention measures. Accidents resulted in five fatalities during 1979. The lost work day incident rate was 0.9 per 200,000 employee hours worked. The vehicle accident rate was 3.7 per million miles driven. The

More than 850 employees attended pre-retirement planning seminars held for the first time in 1979. The seminars were conducted at major company facilities in numerous states and two foreign countries.

dollar costs of injuries, property losses and vehicle accidents decreased 50 percent from the previous year. Even though in some respects the Phillips safety record is better than the industry average, the company is working toward improvements in its safety performance.

The industrial hygiene and toxicology staffs were increased and an industrial hygiene laboratory at the company's Research Center in Bartlesville was expanded. Use of computers to store and retrieve medical and hygiene data was greatly expanded. By the end of 1979, teams of physicians, hygienists and medical technicians had conducted monitoring and tests, including examinations of individual employees, at 40 plant sites. A total of 17 follow-up monitoring programs were started. More than 160 employees were added to the team of Phillips people to monitor air and other environmental substances. Results of all programs showed no serious exposures or work-related illnesses.

### **Employee Benefits**

To assist employees in their retirement planning, Phillips added to its benefit programs pre-retirement planning seminars. More than 850 employees and many of their spouses attended these seminars during 1979. The seminars informed employees about retirement benefits and assisted them in selecting various benefit options.

During the year, the cost for employee benefits averaged \$9,100 for each company employee, 31 percent higher than in 1978.





# financial review

## MANAGEMENT'S DISCUSSION OF 1979 EARNINGS

Net income for 1979 was \$891 million, or \$5.77 a share, up 24 percent from 1978. Earnings for 1978 of \$718 million, or \$4.66 a share, included a gain of \$170 million, or \$1.10 a share, from sale of the company's 48.2 percent interest in Pacific Petroleum Ltd. Improved worldwide performance by petroleum operations, up \$220 million, and chemicals, up \$119 million, more than offset the one-time gain on the sale of Pacific Petroleum Ltd. included in 1978 earnings.

Net income from petroleum operations improved as a result of better realizations from sales of petroleum liquids, natural gas and refined products, and higher production of natural gas in the Norwegian North Sea. Chemical earnings increased because of improved profit margins and higher sales volumes.

### REVENUES

Sales and other operating revenues increased \$2.50 billion, or 36 percent. Petroleum revenues rose \$1.83 billion, or 33 percent, as the result of significant worldwide increases in sales prices of petroleum liquids, natural gas and refined products, as well as higher production of natural gas in the Norwegian North Sea. Domestic natural gas prices increased pursuant to the Natural Gas Policy Act of 1978. Negative effects on 1979 revenues were

lower crude oil production worldwide (7 percent) and lower U.S. natural gas production (5 percent).

Revenues from chemical operations improved \$673 million, or 49 percent, because of higher average sales prices and increased sales volumes primarily for ethylene and plastic resins. Negative factors were lower sales volumes for synthetic rubber and butadiene.

Other revenues were up \$136 million primarily because of higher interest income.

### COSTS AND EXPENSES

Costs and operating expenses rose \$1.56 billion, or 33 percent as increases in the purchase price of crude oil and natural gas, and increased raw material costs for chemical plants added \$1.24 billion to costs and operating expenses. Additionally, production and operating expense, transportation costs for natural gas and crude oil, and geological and geophysical expenses, in total, were \$317 million higher than in 1978.

Unsuccessful exploration costs resulting from the company's expanded search for energy reserves, including coal, uranium and geothermal in the United States, increased 62 percent to \$393 million. A comparison of the components of exploration costs follows:

|                                     | Millions of Dollars |              |
|-------------------------------------|---------------------|--------------|
|                                     | 1979                | 1978         |
| Geological and geophysical expenses | \$131               | \$101        |
| Impairment of unproved properties   | 136                 | 36           |
| Dry hole costs                      | 116                 | 98           |
| Lease rentals                       | 10                  | 8            |
|                                     | <b>\$393</b>        | <b>\$243</b> |

*Continued on page 36*

## FIVE YEAR SUMMARY OF NET INCOME

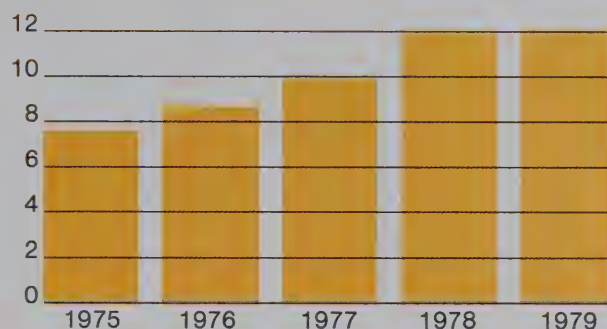
|   | Millions of Dollars |              |              |              |              |
|---|---------------------|--------------|--------------|--------------|--------------|
|   | 1979                | 1978         | 1977         | 1976         | 1975         |
| <b>Petroleum Exploration and Production</b>             |                     |              |              |              |              |
| United States   | \$283               | \$277        | \$267        | \$202        | \$184        |
| Outside United States                                   | 221                 | 146          | 98           | 40           | 46           |
|   | <b>504</b>          | <b>423</b>   | <b>365</b>   | <b>242</b>   | <b>230</b>   |
| <b>Petroleum Refining, Marketing and Transportation</b> |                     |              |              |              |              |
| United States   | 131                 | 34           | 60           | 55           | 5            |
| Outside United States                                   | 48                  | 6            | 12           | 1            | (2)          |
|   | <b>179</b>          | <b>40</b>    | <b>72</b>    | <b>56</b>    | <b>3</b>     |
| <b>Worldwide Petroleum</b>                              | <b>683</b>          | <b>463</b>   | <b>437</b>   | <b>298</b>   | <b>233</b>   |
| <b>Worldwide Chemicals</b>                              | <b>178</b>          | <b>59</b>    | <b>68</b>    | <b>74</b>    | <b>81</b>    |
| <b>Other*</b>   | <b>30</b>           | <b>196</b>   | <b>26</b>    | <b>40</b>    | <b>21</b>    |
|   | <b>\$891</b>        | <b>\$718</b> | <b>\$531</b> | <b>\$412</b> | <b>\$335</b> |

\*Other includes equity in earnings of nonsubsidiary companies, losses from coal, uranium and geothermal activities, and gains and losses from other corporate activities (including in 1978 a gain of \$170 million from sale of Pacific Petroleum Ltd. stock).

## RETURN ON AVERAGE TOTAL ASSETS

### Percent

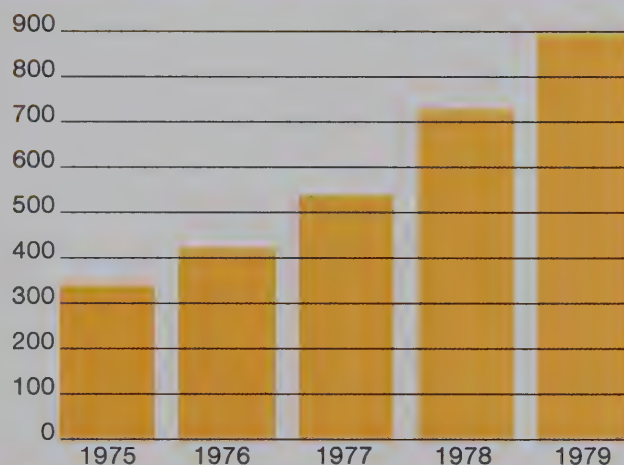
Return on assets is a basic method for measuring a company's profitability. It measures how much a company made on the money invested in its businesses. Since 1975, Phillips return improved steadily, reaching 12 percent in 1979. This means that in 1979 Phillips earned 12 cents for each dollar the company had invested in its various businesses.



## NET INCOME

### Millions of Dollars

All of Phillips major operations made significant contributions to the growth in the company's net income between 1975 and 1979. Since 1975, the company's worldwide production of petroleum liquids has increased 19 percent. Prices for crude oil, natural gas and petroleum products increased, reflecting the general rise in the world price of crude oil. In addition, new production capacity enabled the company to increase the sales volumes of its chemicals, particularly ethylene and polyethylene. Between 1975 and 1979 prices for most chemicals also rose.

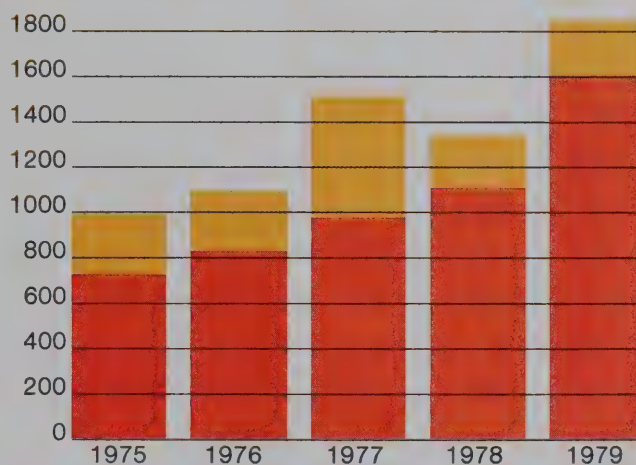


## FUNDS AVAILABLE AND EXPENDED

### Millions of Dollars

Funds generated from operations increased to \$1.59 billion in 1979 from \$1.08 billion in 1978. These funds consist of earnings plus non-cash items included in earnings, such as depreciation, depletion, amortization and retirements. These funds were inadequate to pay dividends, cover capital expenditures, retire long-term debt and meet other obligations, which increased to \$1.82 billion in 1979 from \$1.33 billion in 1978. The 1979 deficiency of \$232 million was covered by sale of assets, borrowings and reducing working capital.

■ DEFICIENCY
 ■ FUNDS FROM OPERATIONS

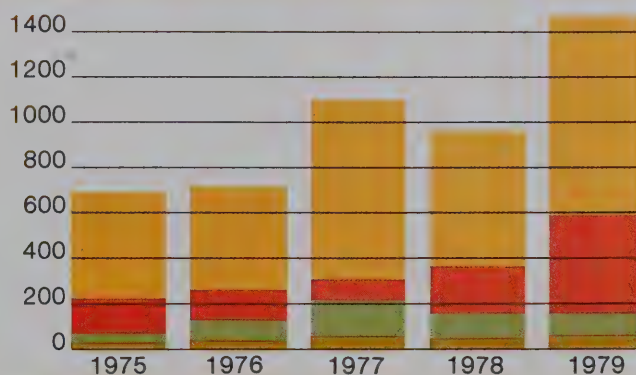


## CAPITAL EXPENDITURES

### Millions of Dollars

A total of \$1.45 billion was spent by Phillips for capital expenditures during 1979. This was a 55 percent increase from 1978 capital expenditures. U.S. expenditures totaled \$1.04 billion and foreign expenditures totaled \$409 million. The major portion of U.S. capital expenditures in 1979 was for energy related projects.

■ NATURAL RESOURCES
 ■ PETROLEUM PRODUCTS
 ■ CHEMICALS
 ■ OTHER





Depreciation, depletion, amortization and retirements rose \$198 million, or 44 percent. Impairment of lease acquisition costs in Alaska's Lower Cook Inlet area and higher depreciation charges resulting from larger investments in refining and chemical operating assets were the two principal reasons for the increase.

Selling, general and administrative expenses rose \$83 million, or 29 percent, principally in response to the need for greater staff support for expanding operations. Higher gross production, social security and sales and use taxes caused taxes other than income taxes to increase \$35 million.

The provision for income taxes, excluding taxes resulting from the sale of Pacific stock (\$136 million), rose \$392 million or 46 percent. Foreign income taxes were \$267 million higher and federal, state and local income taxes increased \$125 million. Higher foreign crude oil prices increased pretax earnings in high income tax rate countries and, as a result, foreign income taxes rose. Higher pretax earnings in the United States resulted in increased federal and state income taxes.

#### OTHER COMMENTS

The company's return on average total assets for 1979 was 12.0 percent, up from 11.8 percent in 1978.

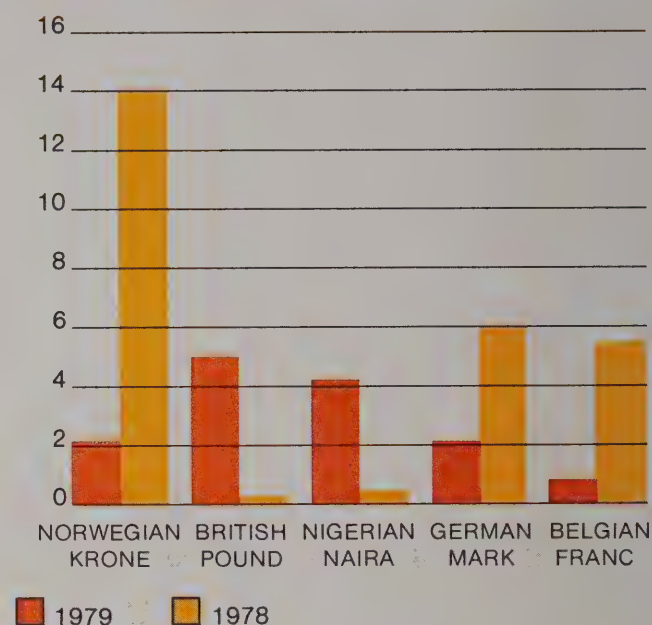
On a geographic basis, net income from U.S. operations was \$528 million or 59 percent of the total, up \$188 million from 1978. Net income from foreign operations was \$363 million or 41 percent of the total, up \$155 million excluding the sale of Pacific stock.

#### STOCK PRICES AND DIVIDENDS

|                            | Quarter |        |       |        |
|----------------------------|---------|--------|-------|--------|
|                            | First   | Second | Third | Fourth |
| <b>Price Per Share</b>     |         |        |       |        |
| 1979 High.....             | \$35%   | \$39½  | \$43% | \$50%  |
| Low.....                   | 29½     | 33½    | 37    | 40     |
| 1978 High.....             | 31¼     | 36%    | 35%   | 35     |
| Low.....                   | 26¼     | 28¼    | 31    | 28%    |
| <b>Dividends Per Share</b> |         |        |       |        |
| 1979.....                  | \$.30   | \$.35  | \$.35 | \$.35  |
| 1978.....                  | .30     | .30    | .30   | .30    |

Phillips common stock, the company's only class of voting securities, is traded primarily on the New York Stock Exchange. The table shows the high and low sales prices and the dividends paid for each quarterly period during the past two years for a share of common stock. On June 1, 1979, the quarterly dividend increased to 35 cents a share and on March 1, 1980, to 45 cents a share.

#### FOREIGN CURRENCY TRANSLATION LOSSES U.S. Dollars in Millions



Foreign currency translation losses were \$14 million in 1979, compared with a loss of \$28 million in 1978. Currency translation losses are caused by the U.S. dollar declining against currencies in which Phillips has a net liability exposure. The majority of these liabilities relate to foreign income tax obligations and long-term debt used to finance international operations.

Phillips conducts a currency hedging program to moderate the impact of foreign currency movement on earnings. This program enabled Phillips to reduce the impact of foreign currency translation losses in 1979.

#### SOURCE AND DISPOSITION OF REVENUE DOLLAR

|   | Cents |       |
|---|-------|-------|
|   | 1979  | 1978  |
| <b>Source</b>                                     |       |       |
| Petroleum operations.....                         | 76.1¢ | 75.3¢ |
| Chemicals.....                                    | 21.1  | 18.7  |
| Other.....  | 2.8   | 1.9   |
| Sale of Pacific Petroleum Ltd.....                | —     | 4.1   |
| <b>Disposition</b>                                |       |       |
| Costs and operating expenses.....                 | 65.1  | 64.5  |
| Income and operating taxes.....                   | 14.3  | 14.9  |
| Selling, general, interest and debt expenses..... | 4.8   | 4.9   |
| Depreciation and other write-offs.....            | 6.7   | 6.0   |
| Net income.....                                   | 9.1   | 9.7   |

## MANAGEMENT'S DISCUSSION OF 1978 EARNINGS

The company's net income for 1978 was \$718 million, up \$187 million from earnings of \$531 million for 1977 and included a one-time gain of \$170 million, or \$1.10 a share, from sale of the company's 48.2 percent interest in Pacific Petroleum Ltd. Excluding this gain, net income increased \$17 million, or 10 cents a share, from the \$3.46 a share reported in 1977. Net income for both 1978 and 1977 have been restated to reflect the adoption of FASB Statement No. 19. Contributing to this increase was a \$26 million rise in petroleum earnings, which was partially offset by a \$9 million decrease in chemical earnings.

Net income for petroleum operations improved because of higher worldwide production of crude oil and natural gas and improved natural gas sales prices, offset in part by greater exploration costs, lower average crude oil sales prices and a decline in earnings for refining, marketing and transportation operations.

Chemical earnings declined in 1978 as price increases were insufficient to recover higher raw material costs and operating expenses.

## REVENUES

Sales and other operating revenues increased \$714 million, or 11 percent, because of a \$585 million, or 12 percent, increase in petroleum revenues and an improvement of \$110 million, or 9 percent, in chemical sales. Petroleum revenues rose as the result of a 17 percent increase in worldwide crude oil production, a 15 percent increase in worldwide natural gas production and higher sales prices for natural gas and motor fuel. The increase in crude oil output came from the Norwegian North Sea, Indonesia, Nigeria and the North Slope of Alaska. Natural gas production rose principally as the result of a full year's gas sales from Ekofisk. Negative effects on 1978 revenues included lower average crude oil sales prices and reduced sales volume and prices for liquefied petroleum gas.

Revenues from chemical operations improved because of increased volumes for chemical products and plastic resins and higher prices for synthetic rubber, carbon black and ethylene. Negative factors were lower sales prices for plastic resins and fertilizer and lower fertilizer volumes.

## COSTS AND EXPENSES

Total costs and expenses increased \$829 million, or 14 percent. Included in this increase is \$178 million for higher production and operating expenses, mainly

the result of higher lifting and transportation costs for crude oil and natural gas as well as increased geological and geophysical expenses. Also included in this increase is \$193 million, primarily from increased purchases of domestic crude oil and natural gas, and higher raw material costs for chemicals.

Depreciation, depletion, amortization and retirements increased \$134 million in 1978, 43 percent higher than in 1977. The increase was caused by greater investment in proved oil and gas properties, in undeveloped oil and gas leases and in chemical plants. In addition, higher volumes of oil and gas production increased the amount of depletion.

As a result of the accelerated search for additional energy reserves, including coal, uranium and geothermal in the United States, costs resulting from unsuccessful exploration increased 43 percent. A comparison of the components of exploration costs follows:

|   | Millions of Dollars |              |
|---|---------------------|--------------|
|   | 1978                | 1977         |
| Geological and geophysical expenses . . .   | \$101               | \$ 88        |
| Impairment of unproved properties . . . . . | 36                  | 16           |
| Dry hole costs . . . . .                    | 98                  | 58           |
| Lease rentals . . . . .                     | 8                   | 8            |
|   | <b>\$243</b>        | <b>\$170</b> |

Taxes other than income taxes increased \$11 million as gross production and social security taxes rose. Selling, general and administrative expenses decreased \$8 million, primarily because of lower expenses in petroleum marketing operations.

The provision for income taxes, excluding taxes resulting from the sale of Pacific Petroleum Ltd. stock (\$136 million), was \$853 million, an increase of \$188 million. Foreign income taxes rose \$237 million while federal, state and local income taxes decreased \$49 million. Increased foreign income taxes resulted primarily from growth in pretax earnings in high income tax rate jurisdictions plus the effects of foreign currency translations.

**Copies of the company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission may be obtained by writing to Mr. Harvey W. Thompson, Secretary, Phillips Petroleum Company, Bartlesville, OK 74004.**



PHILLIPS PETROLEUM COMPANY

**CONSOLIDATED STATEMENTS OF INCOME  
AND EARNINGS EMPLOYED IN THE BUSINESS**

Thousands of Dollars

|  | 1979               | 1978*              |
|--|--------------------|--------------------|
| <b>Revenues</b>  |                    |                    |
| Sales and other operating revenues.....                              | \$9,502,775        | \$6,997,782        |
| Equity in earnings of nonsubsidiary companies.....                   | 29,317             | 41,223             |
| Sale of Pacific Petroleum Ltd. — Note 5.....                         | —                  | 305,974            |
| Other revenues.....  | 212,658            | 76,963             |
|  | <b>9,744,750</b>   | <b>7,421,942</b>   |
| <b>Costs and Expenses</b>  |                    |                    |
| Costs and operating expenses.....                                    | 6,347,865          | 4,787,511          |
| Selling, general and administrative expenses.....                    | 366,753            | 284,100            |
| Depreciation, depletion, amortization and retirements.....           | 647,499            | 449,322            |
| Taxes other than income taxes — Note 11.....                         | 149,979            | 114,852            |
| Interest and expense on indebtedness.....                            | 96,568             | 78,746             |
| Provision for income taxes — Note 11.....                            | 1,244,965          | 989,293            |
|  | <b>8,853,629</b>   | <b>6,703,824</b>   |
| <b>Net Income</b>  | <b>891,121</b>     | <b>718,118</b>     |
| <b>Earnings Employed in the Business</b>                             |                    |                    |
| At beginning of year, as previously reported.....                    |                    | 2,406,197          |
| Adjustment — Note 2.....   |                    | (69,016)           |
| As restated.....   | <b>2,870,514</b>   | <b>2,337,181</b>   |
| Dividends paid — (1979 — \$1.35 a share; 1978 — \$1.20 a share)..... | <b>(208,477)</b>   | <b>(184,785)</b>   |
| At end of year.....  | <b>\$3,553,158</b> | <b>\$2,870,514</b> |
| <b>Net Income Per Share of Common Stock</b>                          | <b>\$ 5.77</b>     | <b>\$ 4.66</b>     |

\*Restated — See Note 2.

See notes to financial statements.

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

The Board of Directors and Stockholders  
Phillips Petroleum Company

We have examined the accompanying consolidated balance sheets of Phillips Petroleum Company at December 31, 1979 and 1978, and the related consolidated statements of income and earnings employed in the business and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Phillips Petroleum Company at December 31, 1979 and 1978, and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period after restatement of the consolidated financial statements for 1978 for the change, with which we concur, in the method of accounting for certain oil and gas producing activities as described in Note 2.

Tulsa, Oklahoma  
February 15, 1980

*Arthur Young & Company*

**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31**

Thousands of Dollars

1979 1978\*

**ASSETS**

**Current Assets**

|   |             |             |
|---|-------------|-------------|
| Cash, including time deposits — (1979 — \$1,040,092; 1978 — \$1,001,098) . . . . .      | \$1,185,071 | \$1,104,048 |
| Short-term investments . . . . .  | 114,878     | 31,521      |
| Accounts and notes receivable — (less allowances: 1979 — \$15,490; 1978 — \$15,000) . . | 1,431,262   | 845,025     |
| Inventories:  |             |             |
| Crude oil, petroleum products, chemicals and merchandise . . . . .                      | 478,737     | 403,520     |
| Materials and supplies . . . . .  | 125,019     | 107,649     |
| Prepaid expenses and other current assets . . . . .                                     | 51,171      | 69,034      |

|                                       |                  |                  |
|---------------------------------------|------------------|------------------|
| <b>Total Current Assets</b> . . . . . | <b>3,386,138</b> | <b>2,560,797</b> |
|---------------------------------------|------------------|------------------|

|   |                |                |
|---|----------------|----------------|
| <b>Investments and Long-Term Receivables — Note 4</b> . . . . . | <b>276,115</b> | <b>229,902</b> |
|---|----------------|----------------|

|   |                  |                  |
|---|------------------|------------------|
| <b>Properties, Plants and Equipment</b> , less accumulated depreciation, depletion<br>and amortization — Note 6 . . . . . | <b>4,777,512</b> | <b>3,945,402</b> |
|---|------------------|------------------|

|                                   |               |               |
|-----------------------------------|---------------|---------------|
| <b>Deferred Charges</b> . . . . . | <b>78,944</b> | <b>97,513</b> |
|-----------------------------------|---------------|---------------|

|  |                    |                    |
|--|--------------------|--------------------|
|  | <b>\$8,518,709</b> | <b>\$6,833,614</b> |
|--|--------------------|--------------------|

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**Current Liabilities**

|  |             |            |
|--|-------------|------------|
| Accounts and notes payable . . . . .   | \$1,261,091 | \$ 797,130 |
| Long-term debt and obligations due within one year — Notes 7 and 9 . . . . . | 81,540      | 85,937     |
| Accrued taxes — Note 11 . . . . .  | 1,227,934   | 807,091    |
| Deferred income taxes — Note 11 . . . . .                                    | 29,275      | 19,964     |
| Other accruals . . . . .   | 78,276      | 59,798     |

|  |                  |                  |
|--|------------------|------------------|
| <b>Total Current Liabilities</b> . . . . . | <b>2,678,116</b> | <b>1,769,920</b> |
|--|------------------|------------------|

|  |                |                |
|--|----------------|----------------|
| <b>Long-Term Debt — Note 7</b> . . . . . | <b>648,352</b> | <b>675,632</b> |
|--|----------------|----------------|

|   |                |               |
|---|----------------|---------------|
| <b>Other Long-Term Liabilities — Note 8</b> . . . . . | <b>153,410</b> | <b>88,810</b> |
|---|----------------|---------------|

|  |               |                |
|--|---------------|----------------|
| <b>Obligations Under Capital Leases — Note 9</b> . . . . . | <b>96,936</b> | <b>120,830</b> |
|--|---------------|----------------|

|   |                |                |
|---|----------------|----------------|
| <b>Accrued Contingent Liabilities — Note 10</b> . . . . . | <b>135,291</b> | <b>143,903</b> |
|---|----------------|----------------|

|  |                |                |
|--|----------------|----------------|
| <b>Deferred Income Taxes — Note 11</b> . . . . . | <b>463,676</b> | <b>391,971</b> |
|--|----------------|----------------|

|   |               |               |
|---|---------------|---------------|
| <b>Other Deferred Credits</b> . . . . . | <b>74,680</b> | <b>57,585</b> |
|---|---------------|---------------|

|   |               |               |
|---|---------------|---------------|
| <b>Minority Interest in Consolidated Subsidiaries</b> . . . . . | <b>11,021</b> | <b>10,395</b> |
|---|---------------|---------------|

**Stockholders' Equity — Note 12**

|  |           |           |
|--|-----------|-----------|
| Common stock . . . . .                                   | 193,062   | 193,062   |
| Capital in excess of par value of common stock . . . . . | 511,305   | 511,301   |
| Earnings employed in the business . . . . .              | 3,553,158 | 2,870,514 |

|  |                  |                  |
|--|------------------|------------------|
|  | <b>4,257,525</b> | <b>3,574,877</b> |
|--|------------------|------------------|

|                                   |       |       |
|-----------------------------------|-------|-------|
| Treasury stock, at cost . . . . . | (298) | (309) |
|-----------------------------------|-------|-------|

|   |                  |                  |
|---|------------------|------------------|
| <b>Total Stockholders' Equity</b> . . . . . | <b>4,257,227</b> | <b>3,574,568</b> |
|---|------------------|------------------|

|  |                    |                    |
|--|--------------------|--------------------|
|  | <b>\$8,518,709</b> | <b>\$6,833,614</b> |
|--|--------------------|--------------------|

\*Restated — See Note 2.

See notes to financial statements.



**PHILLIPS PETROLEUM COMPANY**
**CONSOLIDATED STATEMENTS OF CHANGES  
IN FINANCIAL POSITION**

Thousands of Dollars

1979 1978\*

**Funds Provided from Operations Consisted of**

|   |                  |                  |
|---|------------------|------------------|
| Net income .....  | \$ 891,121       | \$ 718,118       |
| Sale of Pacific Petroleum Ltd. ....                         | —                | (169,901)        |
| Non-cash items included in earnings, as follows:            |                  |                  |
| Depreciation, depletion, amortization and retirements ..... | 647,499          | 449,322          |
| Other .....   | 52,888           | 86,588           |
|   | <b>1,591,508</b> | <b>1,084,127</b> |

**While Funds Were Expended for**

|   |                  |                  |
|---|------------------|------------------|
| Properties, plants and equipment .....  | 1,453,691        | 940,183          |
| Investments .....                       | 39,861           | 18,734           |
| Reduction of long-term borrowings ..... | 83,800           | 136,354          |
| Dividends to company stockholders ..... | 208,477          | 184,785          |
| Other .....                             | 37,672           | 49,776           |
|   | <b>1,823,501</b> | <b>1,329,832</b> |

**Which Left a Deficiency of**

231,993 245,705

**Additional Funds Were Provided from**

|   |                |                |
|---|----------------|----------------|
| Long-term borrowings .....                | 30,339         | 3,378          |
| Property sales and retirements .....      | 60,346         | 50,553         |
| Sale of Pacific Petroleum Ltd. ....       | —              | 435,656        |
| Sales of other investments .....          | 35,824         | 13,107         |
| Proceeds from sale of company stock ..... | 15             | 23,452         |
| Other .....                               | 22,614         | 42,536         |
|   | <b>149,138</b> | <b>568,682</b> |

**Which Resulted in Increased (Decreased) Working Capital of**

\$ (82,855) \$ 322,977

**Working Capital Changes**
**Increase (Decrease) in Current Assets**

|   |            |            |
|---|------------|------------|
| Cash and short-term investments .....           | \$ 164,380 | \$ 808,853 |
| Accounts and notes receivable .....             | 586,237    | 54,477     |
| Inventories .....                               | 92,587     | 12,913     |
| Prepaid expenses and other current assets ..... | (17,863)   | (10,543)   |

**(Increase) Decrease in Current Liabilities**

|  |           |           |
|--|-----------|-----------|
| Accounts and notes payable .....                         | (463,961) | (123,261) |
| Long-term debt and obligations due within one year ..... | 4,397     | (5,804)   |
| Taxes and other accruals .....                           | (448,632) | (413,658) |

**Increase (Decrease) in Working Capital**

\$ (82,855) \$ 322,977

\*Restated — See Note 2.

See notes to financial statements.

### NOTE 1 – ACCOUNTING POLICIES

**Consolidation Principles and Investments** — The consolidated statements include the accounts of companies owned more than 50 percent. Investments in companies owned 20 percent to 50 percent, inclusively, and in corporate joint ventures are accounted for using the equity method. Investments in other companies are carried at cost except that equity securities for which quoted prices are available are carried at the lower of aggregate cost or market.

**Inventories** — Crude oil, petroleum products, chemicals and merchandise are priced at cost, which is lower than market in the aggregate, mainly on the last-in, first-out (LIFO) basis. Materials and supplies are priced at or below average cost.

**Oil and Gas Exploration and Development** — Oil and gas exploration and development costs are accounted for using the “successful efforts” method of accounting. Oil and gas leasehold acquisition costs are capitalized. Leasehold impairment costs are recognized based upon unsuccessful exploratory experience. Upon discovery of commercial oil and gas reserves, leasehold costs are transferred to producing leasehold costs. Development costs including unsuccessful development wells are capitalized. Unsuccessful exploratory wells (dry holes) and geological and geophysical costs are expensed.

**Depreciation, Depletion and Amortization** — Depreciation and amortization of properties, plants and equipment, including assets under capital leases, are determined by the group straight-line method, individual unit straight-line method and the unit-of-production method, applying the method considered most appropriate for each type of property. Leasehold costs of producing properties are depleted on the unit-of-production method based on estimated proved recoverable oil and gas reserves. Depletion of intangible development costs and depreciation of equipment costs, relating to producing properties, are based on the unit-of-production method using the estimated proved developed recoverable oil and gas reserves.

**Property Dispositions** — When complete units of depreciable property are retired or sold, accumulated depreciation is reduced by the applicable amounts and any profit or loss is credited or charged to income. When less than complete units of depreciable property are disposed of or retired, the difference between asset cost and salvage value is charged or credited to accumulated depreciation.

**Non-Mineral Leases** — Capital lease obligations are stated primarily at fair value at inception and accounted for as properties, plants and equipment and as obligations under capital leases.

**Maintenance and Repairs** — Maintenance and repairs are charged against income. Major renewals and replacements are charged to property accounts and the assets replaced are retired.

**Dismantlement Costs** — The estimated costs, net of salvage values, of dismantling facilities are accrued currently, using the unit-of-production method and the straight-line method, applying the method considered most appropriate for each type of property.

**Foreign Currency Translation** — In general, current assets (except inventories), current liabilities, long-term receivables and long-term debt are translated to U.S. dollars at currency exchange rates prevailing at balance sheet dates. Inventories, other assets and liabilities are translated at historical currency exchange rates. Revenues, costs and expenses are translated monthly using current exchange rates, except for costs related to balance sheet items which are translated at historical rates. Exchange gains and losses including gains and losses on forward exchange contracts are included in income in the period in which they occur.

**Income Taxes** — Deferred taxes are provided for all significant timing differences in the recognition of revenues and expenses for tax and financial purposes. The allowable investment tax credit is applied currently as a reduction of the provision for income taxes.

**Net Income Per Share** — Net income per share of common stock is calculated based upon the daily weighted average of the number of shares outstanding during the year.

### NOTE 2 – ACCOUNTING CHANGE

Effective January 1, 1979, the company changed its oil and gas accounting practices to conform with Financial Accounting Standards Board (FASB) Statement No. 19 on “Financial Accounting and Reporting by Oil and Gas Producing Companies.” The net income effects of adopting FASB Statement No. 19 follow: increase 1978 net income \$7,639,000 (\$.05 per share), with the cumulative effect being to increase the total net income for the five years ended December 31, 1978 \$516,000 and decrease January 1, 1978 stockholders’ equity \$69,016,000 (2.2 percent).



### NOTE 3 – COSTS RELATING TO OIL AND GAS PRODUCING ACTIVITIES

Capitalized costs relating to oil and gas producing activities at December 31, 1979 and 1978 and costs incurred (capitalized and expensed) during 1979 and 1978 are presented, as required by FASB Statement No. 19, on page 47.

### NOTE 4 – INVESTMENTS AND LONG-TERM RECEIVABLES

Components of investments and long-term receivables at December 31, were as follows:

|  | Thousands of Dollars |           |
|--|----------------------|-----------|
|  | 1979                 | 1978      |
| Investments in and indebtedness of companies accounted for using the equity method | \$154,446            | \$138,618 |
| Other investments  | 47,141               | 45,527    |
| Long-term receivables  | 76,937               | 48,157    |
|  | 278,524              | 232,302   |
| Less allowances  | 2,409                | 2,400     |
|  | \$276,115            | \$229,902 |

### NOTE 5 – SALE OF INTEREST IN PACIFIC PETROLEUMS LTD.

In November 1978, the company sold its 10,326,321 shares of common stock of Pacific Petroleum Ltd. (Pacific), representing 48.2 percent of total shares outstanding, at a price of \$55.50 per share, which was equivalent to \$65.02 (Canadian) per share. As a result of the sale, net income increased \$169,901,000 (\$1.10 per share), after deducting income taxes of \$136,073,000. Equity in earnings of Pacific amounted to \$38,150,000 in 1978.

### NOTE 6 – PROPERTIES, PLANTS AND EQUIPMENT

The company's investments in properties, plants and equipment (at cost, except for capital leases) at December 31, are summarized as follows:

|   | Thousands of Dollars |             |
|---|----------------------|-------------|
|   | 1979                 | 1978        |
| Natural Resources   | \$4,665,450          | \$4,060,565 |
| Petroleum Products  | 1,712,472            | 1,330,425   |
| Chemicals   | 1,140,213            | 1,062,201   |
| Other   | 237,203              | 202,393     |
|   | 7,755,338            | 6,655,584   |
| Less accumulated depreciation, depletion and amortization | 2,977,826            | 2,710,182   |
|   | \$4,777,512          | \$3,945,402 |

The above schedule includes assets under capital leases and related accumulated amortization of \$192,040,000 and \$104,541,000 for 1979 and \$217,135,000 and \$108,761,000 for 1978.

### NOTE 7 – LONG-TERM DEBT

Long-term debt due after one year at December 31, consisted of the following:

|   | Thousands of Dollars |
|---|----------------------|
|   | 1979                 |
| 8% Debentures Due 2000                                  | \$250,000            |
| 7% Debentures Due 2001                                  | 175,418              |
| 6% Guaranteed Sinking Fund Debentures Due 1981          | 820                  |
| 5% Marine Terminal Revenue Bonds, Series 1977 Due 2007  | 20,000               |
| Notes payable to banks, insurance companies and others: |                      |
| At 8½%-14%, due 1983-1991                               | 30,320               |
| At 5½%-8%, due 1981-1991*                               | 36,196               |
| At 4%-5½%, due 1981-1988                                | 117,228              |
| Purchase obligations                                    | 18,370               |
|   | \$648,352            |

\*Includes \$13,502 in French francs, \$12,637 in British pounds and \$2,118 in other foreign currencies.

Maturities of long-term debt for the next five years are: 1980—\$59,500,000 (included in current liabilities); 1981—\$51,634,000; 1982—\$29,273,000; 1983—\$31,201,000; 1984—\$31,276,000.

Arrangements existed at year-end for the company to borrow an additional \$71,000,000 to finance its proportionate share of expenditures for the development of the Maureen Field located in the United Kingdom sector of the North Sea. Repayment will commence in 1983 and continue through 1991.

### NOTE 8 – OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of accrued liabilities for dismantling facilities, principally exploration and production.

### NOTE 9 – NON-MINERAL LEASES

The company leases bulk and service stations, railroad cars, tankers, oil and gas gathering systems, a natural gas liquefaction plant, chemical plants and other facilities and equipment. These leases involve both capital and operating leases, the major portion of which covers bulk and service stations, tankers and a natural gas liquefaction plant and related gathering system.

Most station leases have renewal options for varying periods at monthly rentals which equal or exceed the rentals paid during the primary lease term. Some station leases include purchase options exercisable after a specified number of years. Contingent rentals, where applicable, are generally based on the volume of motor fuel sold through the station. Many of the stations are subleased for the same amount of rentals and for the same term specified in the primary lease.

Capital lease data at December 31, follow:

|  | Thousands of Dollars |
|--|----------------------|
|  | 1979                 |
| Minimum lease payments:                      |                      |
| 1980 .....                                   | \$ 26,905            |
| 1981 .....                                   | 24,949               |
| 1982 .....                                   | 21,866               |
| 1983 .....                                   | 16,763               |
| 1984 .....                                   | 14,769               |
| Remaining years .....                        | 45,411               |
| Total* .....                                 | 150,663              |
| Less estimated executory costs .....         | 1,651                |
| Net payments .....                           | 149,012              |
| Less imputed interest .....                  | 32,684               |
| Present value .....                          | 116,328              |
| Amount included in current liabilities ..... | 19,392               |
| Obligations under capital leases .....       | \$ 96,936            |

\*Minimum payments have not been reduced by minimum sublease rentals of \$21,704 due under noncancelable subleases.

Minimum rental payments under operating leases having initial or remaining noncancelable lease terms in excess of one year as of December 31, follow:

|                       | Thousands of Dollars |
|-----------------------|----------------------|
|                       | 1979                 |
| 1980 .....            | \$ 27,491            |
| 1981 .....            | 21,328               |
| 1982 .....            | 16,820               |
| 1983 .....            | 14,900               |
| 1984 .....            | 11,958               |
| Remaining years ..... | 34,651               |
| Total* .....          | \$ 127,148           |

\*Minimum payments have not been reduced by minimum sublease rentals of \$10,951 due under noncancelable subleases.

Rentals for all operating leases for the years ended December 31, follow:

|                             | Thousands of Dollars |           |
|-----------------------------|----------------------|-----------|
|                             | 1979                 | 1978      |
| Minimum rentals .....       | \$ 55,656            | \$ 42,693 |
| Contingent rentals .....    | 279                  | 362       |
| Total rentals .....         | 55,935               | 43,055    |
| Less sublease rentals ..... | 8,695                | 12,540    |
| Net rentals .....           | \$ 47,240            | \$ 30,515 |

#### NOTE 10 – LITIGATION AND CONTINGENT LIABILITIES

A number of legal proceedings are pending in various courts or agencies in which the company or a subsidiary appears as plaintiff or defendant, including civil class action suits filed by the states of Florida, Connecticut, California, Arizona, Oregon and Washington (all consolidated for pretrial procedures in the U.S. District Court at Los Angeles, California) against numerous petroleum companies, alleging extensive violations of the

antitrust laws relating to the production and refining of crude oil, and the transportation and marketing of crude oil and refined products.

At December 31, 1979, the company was contingently liable for \$185,860,000 of obligations principally of companies in which the company has a minority interest. In addition, the company has contingent liabilities with respect to agreements with pipeline companies in which it or its subsidiaries hold stock interests whereby it may be required to provide such companies with additional funds through advances against future transportation charges to the company for transportation of petroleum liquids, natural gas and refined products tendered by the company to the pipeline companies.

While it is not possible at this time to establish the ultimate amount of liability in respect to contingent liabilities, including those related to legal proceedings, the company is of the opinion that the aggregate amount of any such liabilities for which provision has not been made will not have a materially adverse effect on its financial position.

#### NOTE 11 – TAXES

|                        | Thousands of Dollars |           |
|------------------------|----------------------|-----------|
|                        | 1979                 | 1978      |
| <b>Operating taxes</b> |                      |           |
| Property .....         | \$ 35,812            | \$ 33,111 |
| Gross production ..... | 54,870               | 40,918    |
| Social security .....  | 33,785               | 27,461    |
| Other .....            | 25,512               | 13,362    |
|                        | 149,979              | 114,852   |

|                       |           |         |
|-----------------------|-----------|---------|
| <b>Income taxes</b>   |           |         |
| Federal               |           |         |
| Current .....         | 224,072   | 284,762 |
| Deferred .....        | 91,957    | 46,462  |
| Foreign               |           |         |
| Current .....         | 910,982   | 617,532 |
| Deferred .....        | (10,941)  | 15,954  |
| State and local ..... | 28,895    | 24,583  |
|                       | 1,244,965 | 989,293 |

|  |              |              |
|--|--------------|--------------|
| Total taxes charged to income .....  | 1,394,944    | 1,104,145    |
| Excise taxes collected on the sale of petroleum products and paid to taxing agencies ..... | 156,000      | 176,000      |
|  | \$ 1,550,944 | \$ 1,280,145 |

Deferred taxes on timing differences recognized were:

|   | Thousands of Dollars |           |
|---|----------------------|-----------|
|   | 1979                 | 1978      |
| Excess of tax over financial depreciation .....                                       | \$ 75,120            | \$ 69,930 |
| Excess of intangible drilling and certain other costs over financial provisions ..... | 44,444               | 29,123    |
| Excess of financial over tax provision for dismantlement .....                        | (37,503)             | (23,097)  |
| Other .....   | (1,045)              | (13,540)  |
|   | \$ 81,016            | \$ 62,416 |



A reconciliation between the provision for income taxes and the amount of income tax determined by applying the federal statutory rate to income before income taxes follows:

|  | Thousands of Dollars |             | Percent of Pretax Income |       |
|--|----------------------|-------------|--------------------------|-------|
|  | 1979                 | 1978        | 1979                     | 1978  |
| Income before income taxes.....                        | \$2,136,086          | \$1,707,411 |                          |       |
| Federal statutory income tax.....                      | \$ 982,598           | \$ 819,557  | 46.0%                    | 48.0% |
| Foreign taxes in excess of federal statutory rate..... | 340,181              | 244,969     | 15.9                     | 14.4  |
| Investment and energy tax credits.....                 | (69,591)             | (50,369)    | (3.2)                    | (3.0) |
| Other.....   | (8,223)              | (24,864)    | (.4)                     | (1.5) |
|  | \$1,244,965          | \$ 989,293  | 58.3%                    | 57.9% |

At December 31, the company's equity in undistributed earnings of certain subsidiaries and corporate joint ventures (exclusive of amounts which if remitted in the near future would result in little or no tax because of available tax credits and other deductions) for which deferred taxes have not been provided because of reinvestment plans for such funds, approximated \$183,920,000 for 1979 and \$146,282,000 for 1978.

The Internal Revenue Service has examined the company's federal income tax returns through 1969 and all deficiencies have been settled. The company is of the opinion that any adjustments made to the company's returns for subsequent years will not have a material effect on the financial position of the company.

#### NOTE 12 – STOCKHOLDERS' EQUITY

The company has 200,000,000 authorized shares of \$1.25 par value common stock, 154,449,429 shares of which have been issued. At December 31, 1979, there were 154,427,731 shares outstanding, compared to 154,426,713 shares outstanding at December 31, 1978. The increase in shares outstanding resulted from the distribution of 1,018 treasury shares under the Incentive Compensation Plan, leaving 21,698 shares in the treasury at December 31, 1979.

#### NOTE 13 – RETIREMENT INCOME PLANS

The parent company and its subsidiaries have retirement plans covering substantially all employees. Plans for U.S. employees are being funded based on pension costs accrued as determined by actuarial studies. The majority of plans for employees outside the United States are fully insured and are accounted for on a cash basis. Charges

to income for all such plans were \$91,219,000 for 1979 and \$55,222,000 for 1978. The increase includes \$27,024,000 for the parent company plan because of increasing the level of funding to the maximum allowable.

Unfunded actuarial liabilities for plans covering U.S. participants at the beginning of 1979 were estimated by the actuaries to be \$324,819,000 for the parent company plan and \$10,829,000 for plans of subsidiary companies. Such amounts are being amortized over 10 years and 20 to 25 years, respectively. Vested benefits and plan assets at January 1, were as follows:

|  | Thousands of Dollars |                               |
|--|----------------------|-------------------------------|
|  | 1979                 |                               |
|  | Parent Company Plan  | Plans of Subsidiary Companies |
| Actuarial present value of vested plan benefits..... | \$548,901            | \$28,652                      |
| Net assets available for benefits.....               | \$578,960            | \$26,417                      |

#### NOTE 14 – EMPLOYEE STOCK OWNERSHIP PLAN

In 1976, the company adopted an Employee Stock Ownership Plan, effective January 1, 1975, for eligible employees of Phillips Petroleum Company and certain subsidiaries. The plan is funded solely by an additional one percent investment tax credit available for such purpose under the provisions of the Tax Reduction Act of 1975. The Act permits this one percent tax credit if an amount equal to the credit is used to provide company stock for employees; therefore, the plan had no effect on income. Under present provisions in the tax law the additional tax credit may be continued through 1983.

#### NOTE 15 – INCENTIVE COMPENSATION PLANS

Under the Incentive Compensation Plan, adopted in 1965, and the Long-Term Incentive Compensation Plan, adopted in 1978, provisions of \$7,593,000 and \$4,956,000, respectively, were made against 1979 earnings, in anticipation of awards to key employees under the two plans. These provisions were substantially less than the maximum permitted under the plans. In 1978, provisions of \$5,008,000 and \$1,644,000 were charged against earnings under the Incentive Compensation Plan and the Long-Term Incentive Compensation Plan, respectively.

#### NOTE 16 – RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to expense were \$70,341,000 in 1979 and \$58,246,000 in 1978.

## NOTE 17 – FOREIGN CURRENCY TRANSLATION

Foreign currency translation gains and losses, other than those related to income tax accounts, are included as appropriate in equity in earnings of nonsubsidiary companies, costs and operating expenses and selling, general and administrative expenses. Income taxes applicable to such gains and losses and the translation effects on income tax liabilities are included in the provision for income taxes. Exchange gains and losses, including translation gains and losses, net of tax effects, reduced earnings \$13,838,000 in 1979 and \$28,070,000 in 1978.

## NOTE 18 – SEGMENT AND GEOGRAPHIC INFORMATION

The company is involved primarily in Petroleum and Chemicals operations. Petroleum operations are fully integrated and involve the discovery, production, transportation and refining of crude oil and natural gas together with the subsequent transportation and marketing of products derived therefrom. It also provides feedstock for the production of petrochemicals. Chemicals operations involve the manufacture and marketing of a broad range of petroleum-based chemical products including synthetic rubber, carbon black, plastics, fertilizers, synthetic fibers and other products. The Other segment includes mainly coal, uranium and geothermal.

Segment and geographic information for 1979 and 1978 is presented on pages 46 and 47.

A reconciliation to the financial statements follows:

|  | Millions of Dollars |         |                     |         |
|--|---------------------|---------|---------------------|---------|
|  | Operating Profit    |         | Identifiable Assets |         |
|  | 1979                | 1978    | 1979                | 1978    |
| Operating profit . . . . .   | \$2,173             | \$1,458 |                     |         |
| Identifiable assets . . . . .                                      |                     |         | \$6,837             | \$5,369 |
| Equity in earnings and assets of nonsubsidiary companies . . . . . | 29                  | 41      | 154                 | 139     |
| Sale of Pacific Petroleum Ltd. . . . .                             | —                   | 306     |                     |         |
| Other revenues . . . . .   | 143                 | 65      |                     |         |
| General corporate expenses, interest and income taxes . . . . .    | (1,454)             | (1,152) |                     |         |
| Corporate assets . . . . .   |                     |         | 1,528               | 1,326   |
| Net income . . . . .   | \$ 891              | \$ 718  |                     |         |
| Total assets . . . . .   |                     |         | \$8,519             | \$6,834 |
| Return on average total assets . . . . .                           | 12.0%               | 11.8%   |                     |         |

Sales and other operating revenues by business segments and by geographic areas include both sales to customers outside the consolidated companies and sales within the consolidated companies which are generally

at market value. In computing operating profit, none of the following items have been added or deducted: equity in earnings of nonsubsidiary companies, general corporate revenues and expenses, interest and income taxes. The company's share of assets and earnings of nonsubsidiary companies, which are vertically integrated with operations of the company, is not material.

Identifiable assets by business segments and geographic areas are those assets that are used in the company's operations in each segment or area. Corporate assets are principally cash and short-term investments.

Intersegment and intergeographic sales and profits in inventory are eliminated in determining consolidated revenue and identifiable asset totals.

## NOTE 19 – QUARTERLY FINANCIAL DATA (UNAUDITED)

|                          | Millions of Dollars                |                            |            |                                      |
|--------------------------|------------------------------------|----------------------------|------------|--------------------------------------|
|                          | Sales and Other Operating Revenues | Income Before Income Taxes | Net Income | Net Income Per Share of Common Stock |
| <b>1979</b>              |                                    |                            |            |                                      |
| First quarter . . . . .  | \$1,946                            | \$ 407                     | \$177      | \$1.15                               |
| Second quarter . . . . . | 2,160                              | 501                        | 215        | 1.39                                 |
| Third quarter . . . . .  | 2,449                              | 565                        | 193        | 1.25                                 |
| Fourth quarter . . . . . | 2,948                              | 663                        | 306        | 1.98                                 |
|                          | \$9,503                            | \$2,136                    | \$891      | \$5.77                               |
| <b>1978</b>              |                                    |                            |            |                                      |
| First quarter . . . . .  | \$1,724                            | \$ 392                     | \$171      | \$1.11                               |
| Second quarter . . . . . | 1,687                              | 335                        | 149        | .97                                  |
| Third quarter . . . . .  | 1,727                              | 335                        | 119        | .77                                  |
| Fourth quarter . . . . . | 1,860                              | 645                        | 279*       | 1.81*                                |
|                          | \$6,998                            | \$1,707                    | \$718*     | \$4.66*                              |

\*Includes net income from sale of Pacific Petroleum Ltd. stock of \$169,901,000 (\$1.10 per share).

## NOTE 20 – SUPPLEMENTARY INFORMATION (UNAUDITED)

The company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission (a copy of which is available upon request) contains required information with respect to the estimated replacement cost of inventories and productive capacities at December 31, 1979 and 1978, and its effect on costs and operating expenses and depreciation, depletion and amortization.

In addition, the Annual Report on Form 10-K contains a summary of oil and gas producing activities on the basis of reserve recognition accounting and the estimated future net revenues from the production of proved reserves and present values thereof, as required by the Securities and Exchange Commission.



**ANALYSIS OF RESULTS**  
**By Business Segment**

|  | Millions of Dollars |                 |                 |                 |                 |
|--|---------------------|-----------------|-----------------|-----------------|-----------------|
|  | 1979                | 1978            | 1977            | 1976            | 1975            |
| <b>Sales and Other Operating Revenues to Outside Customers</b> |                     |                 |                 |                 |                 |
| Petroleum operations—U.S.                                      | \$ 5,806            | \$ 4,317        | \$ 4,057        | \$ 3,624        | \$ 3,481        |
| Petroleum operations—outside U.S.                              | 1,611               | 1,274           | 949             | 827             | 579             |
| Chemicals  | 2,057               | 1,384           | 1,274           | 1,230           | 1,058           |
| Other  | 29                  | 23              | 4               | 17              | 16              |
|  | <b>9,503</b>        | <b>6,998</b>    | <b>6,284</b>    | <b>5,698</b>    | <b>5,134</b>    |
| <b>Sales to Other Segments Within Phillips</b>                 |                     |                 |                 |                 |                 |
| Petroleum operations—U.S.                                      | 512                 | 342             | 321             | 265             | 224             |
| Petroleum operations—outside U.S.                              | 593                 | 334             | 304             | 246             | 333             |
| Chemicals  | 233                 | 152             | 137             | 118             | 122             |
| Other  | 22                  | 18              | 2               | 9               | 2               |
|  | <b>1,360</b>        | <b>846</b>      | <b>764</b>      | <b>638</b>      | <b>681</b>      |
| Eliminations (intersegment)                                    | (1,360)             | (846)           | (764)           | (638)           | (681)           |
| <b>Total</b>   | <b>\$ 9,503</b>     | <b>\$ 6,998</b> | <b>\$ 6,284</b> | <b>\$ 5,698</b> | <b>\$ 5,134</b> |
| <b>Operating Profit</b>  |                     |                 |                 |                 |                 |
| Petroleum operations—U.S.                                      | \$ 741              | \$ 627          | \$ 637          | \$ 510          | \$ 387          |
| Petroleum operations—outside U.S.                              | 1,189               | 786             | 491             | 438             | 283             |
| Chemicals  | 289                 | 84              | 120             | 155             | 161             |
| Other  | (39)                | (41)            | (32)            | (27)            | (21)            |
| Eliminations (intersegment)                                    | (7)                 | 2               | 4               | (6)             | (5)             |
|  | <b>\$ 2,173</b>     | <b>\$ 1,458</b> | <b>\$ 1,220</b> | <b>\$ 1,070</b> | <b>\$ 805</b>   |
| <b>Net Income</b>  | <b>\$ 891</b>       | <b>\$ 718</b>   | <b>\$ 531</b>   | <b>\$ 412</b>   | <b>\$ 335</b>   |
| <b>Assets Identifiable by Business Segment</b>                 |                     |                 |                 |                 |                 |
| Petroleum operations—U.S.                                      | \$ 3,453            | \$ 2,575        | \$ 2,481        | \$ 2,170        | \$ 2,091        |
| Petroleum operations—outside U.S.                              | 1,765               | 1,480           | 1,282           | 989             | 814             |
| Chemicals  | 1,272               | 1,039           | 890             | 625             | 639             |
| Other  | 370                 | 291             | 180             | 131             | 82              |
| Eliminations (intersegment)                                    | (23)                | (16)            | (21)            | (21)            | (16)            |
|  | <b>\$ 6,837</b>     | <b>\$ 5,369</b> | <b>\$ 4,812</b> | <b>\$ 3,894</b> | <b>\$ 3,610</b> |
| <b>Depreciation, Depletion, Amortization and Retirements</b>   |                     |                 |                 |                 |                 |
| Petroleum operations—U.S.                                      | \$ 364              | \$ 216          | \$ 159          | \$ 150          | \$ 149          |
| Petroleum operations—outside U.S.                              | 215                 | 182             | 102             | 87              | 129             |
| Chemicals  | 57                  | 46              | 33              | 54              | 32              |
| Other  | 11                  | 10              | 4               | 5               | 4               |
| Corporate  | —                   | (5)             | 17              | —               | (2)             |
| <b>Capital Expenditures—Properties, Plants and Equipment</b>   |                     |                 |                 |                 |                 |
| Petroleum operations—U.S.                                      | \$ 845              | \$ 383          | \$ 516          | \$ 263          | \$ 308          |
| Petroleum operations—outside U.S.                              | 392                 | 338             | 322             | 296             | 295             |
| Chemicals  | 114                 | 126             | 161             | 121             | 57              |
| Other  | 85                  | 80              | 67              | 28              | 14              |
| Corporate  | 18                  | 13              | 12              | 8               | 5               |

## ANALYSIS OF RESULTS By Geographic Area

Millions of Dollars

|  | 1979            | 1978            | 1977            | 1976            | 1975            |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Sales and Other Operating Revenues to Outside Customers</b> |                 |                 |                 |                 |                 |
| United States .....  | \$ 7,539        | \$ 5,551        | \$ 5,175        | \$ 4,647        | \$ 4,374        |
| Europe-Africa .....  | 1,815           | 1,254           | 991             | 951             | 582             |
| Other .....  | 149             | 193             | 118             | 100             | 178             |
|  | 9,503           | 6,998           | 6,284           | 5,698           | 5,134           |
| <b>Sales to Other Geographic Areas</b>                         |                 |                 |                 |                 |                 |
| United States .....  | 105             | 37              | 42              | 39              | 27              |
| Europe-Africa .....  | 594             | 334             | 288             | 219             | 268             |
| Other .....  | 2               | 3               | 20              | 18              | 63              |
|  | 701             | 374             | 350             | 276             | 358             |
| Eliminations (intergeographic) .....                           | (701)           | (374)           | (350)           | (276)           | (358)           |
| <b>Total</b>   | <b>\$ 9,503</b> | <b>\$ 6,998</b> | <b>\$ 6,284</b> | <b>\$ 5,698</b> | <b>\$ 5,134</b> |
| <b>Operating Profit</b>  |                 |                 |                 |                 |                 |
| United States .....  | \$ 969          | \$ 673          | \$ 718          | \$ 633          | \$ 519          |
| Europe-Africa .....  | 1,264           | 784             | 536             | 470             | 297             |
| Other .....  | (55)            | 1               | (37)            | (28)            | (8)             |
| Eliminations (intergeographic) .....                           | (5)             | —               | 3               | (5)             | (3)             |
|  | \$ 2,173        | \$ 1,458        | \$ 1,220        | \$ 1,070        | \$ 805          |
| <b>Net Income</b>  | <b>\$ 891</b>   | <b>\$ 718</b>   | <b>\$ 531</b>   | <b>\$ 412</b>   | <b>\$ 335</b>   |
| <b>Assets Identifiable by Geographic Area</b>                  |                 |                 |                 |                 |                 |
| United States .....  | \$ 4,949        | \$ 3,833        | \$ 3,488        | \$ 2,868        | \$ 2,750        |
| Europe-Africa .....  | 1,780           | 1,434           | 1,208           | 927             | 689             |
| Other .....  | 128             | 117             | 134             | 117             | 184             |
| Eliminations (intergeographic) .....                           | (20)            | (15)            | (18)            | (18)            | (13)            |
|  | \$ 6,837        | \$ 5,369        | \$ 4,812        | \$ 3,894        | \$ 3,610        |

## COSTS RELATING TO OIL AND GAS PRODUCING ACTIVITIES AS REQUIRED BY FASB STATEMENT NO. 19

Millions of Dollars

|   | December 31, 1979 |                |              |                | December 31, 1978 |                |              |                |
|---|-------------------|----------------|--------------|----------------|-------------------|----------------|--------------|----------------|
|   | United States     | Europe-Africa  | Other        | Total          | United States     | Europe-Africa  | Other        | Total          |
| <b>CAPITALIZED COSTS</b>                                    |                   |                |              |                |                   |                |              |                |
| Proved properties .....                                     | \$1,578           | \$1,487        | \$ 90        | \$3,155        | \$1,548           | \$1,253        | \$102        | \$2,903        |
| Unproved properties .....                                   | 498               | 4              | 22           | 524            | 273               | 4              | 22           | 299            |
|   | 2,076             | 1,491          | 112          | 3,679          | 1,821             | 1,257          | 124          | 3,202          |
| Accumulated depreciation, depletion and amortization .....  | 1,135             | 196            | 60           | 1,391          | 1,021             | 140            | 65           | 1,226          |
| <b>Net</b>  | <b>\$ 941</b>     | <b>\$1,295</b> | <b>\$ 52</b> | <b>\$2,288</b> | <b>\$ 800</b>     | <b>\$1,117</b> | <b>\$ 59</b> | <b>\$1,976</b> |
| <b>COSTS INCURRED (capitalized and expensed)</b>            |                   |                |              |                |                   |                |              |                |
| Property acquisition .....                                  | \$ 242            | \$ —           | \$ 1         | \$ 243         | \$ 16             | \$ —           | \$ 1         | \$ 17          |
| Exploration .....   | 105               | 81             | 62           | 248            | 64                | 78             | 73           | 215            |
| Development .....   | 114               | 241            | 13           | 368            | 95                | 226            | 6            | 327            |
| Production (lifting) .....                                  | 220               | 305            | 14           | 539            | 185               | 209            | 19           | 413            |
|   | \$ 681            | \$ 627         | \$ 90        | \$1,398        | \$ 360            | \$ 513         | \$ 99        | \$ 972         |
| Depreciation, depletion, amortization and retirements ..... | \$ 277            | \$ 151         | \$ 51        | \$ 479         | \$ 136            | \$ 111         | \$ 67        | \$ 314         |



| PROVED RESERVES<br>WORLDWIDE – UNAUDITED          | PROVED PETROLEUM LIQUIDS (1) |               |          |              | PROVED NATURAL GAS (2) |               |           |              |
|---|------------------------------|---------------|----------|--------------|------------------------|---------------|-----------|--------------|
|   | Millions of Barrels          |               |          |              | Billions of Cubic Feet |               |           |              |
|   | United States                | Europe-Africa | Other    | Total        | United States          | Europe-Africa | Other     | Total        |
| <b>DEVELOPED AND UNDEVELOPED</b>                  |                              |               |          |              |                        |               |           |              |
| <b>Beginning of 1978</b> .....                    | 550                          | 1,073         | 36       | 1,659        | 4,580                  | 5,559         | 113       | 10,252       |
| Revisions of previous estimates .....             | 2                            | (65)          | (2)      | (65)         | 70                     | (32)          | —         | 38           |
| Improved recovery .....                           | 23                           | —             | —        | 23           | —                      | —             | —         | —            |
| Purchases of reserves in place .....              | 1                            | —             | —        | 1            | 3                      | —             | —         | 3            |
| Extensions, discoveries and other additions ..... | 4                            | 14            | —        | 18           | 129                    | —             | —         | 129          |
| Production .....                                  | (58)                         | (59)          | (10)     | (127)        | (445)                  | (186)         | —         | (631)        |
| Sales of reserves in place .....                  | —                            | —             | —        | —            | (4)                    | —             | —         | (4)          |
| <b>End of 1978, as Previously Reported</b> .....  | 522                          | 963           | 24       | 1,509        | 4,333                  | 5,341         | 113       | 9,787        |
| Royalty adjustment (3) .....                      | —                            | (10)          | —        | (10)         | (326)                  | (506)         | (47)      | (879)        |
| Long-term supply agreements (3) .....             | —                            | —             | (8)      | (8)          | —                      | —             | (19)      | (19)         |
| Subsequent event (4) .....                        | —                            | (127)         | —        | (127)        | —                      | (746)         | —         | (746)        |
| <b>End of 1978, Revised</b> .....                 | 522                          | 826           | 16       | 1,364        | 4,007                  | 4,089         | 47        | 8,143        |
| Revisions of previous estimates .....             | 23                           | (35)          | (16)     | (28)         | (16)                   | 184           | 6         | 174          |
| Improved recovery .....                           | 17                           | —             | —        | 17           | —                      | —             | —         | —            |
| Purchases of reserves in place .....              | —                            | —             | —        | —            | 1                      | —             | —         | 1            |
| Extensions, discoveries and other additions ..... | 4                            | —             | —        | 4            | 57                     | —             | —         | 57           |
| Production .....                                  | (58)                         | (60)          | —        | (118)        | (393)                  | (188)         | —         | (581)        |
| Sales of reserves in place — Nigeria .....        | —                            | (19)          | —        | (19)         | —                      | (72)          | —         | (72)         |
| <b>End of 1979 (5)</b> .....                      | <b>508</b>                   | <b>712</b>    | <b>—</b> | <b>1,220</b> | <b>3,656</b>           | <b>4,013</b>  | <b>53</b> | <b>7,722</b> |
| <b>DEVELOPED</b>                                  |                              |               |          |              |                        |               |           |              |
| <b>Beginning of 1978</b> .....                    | 471                          | 610           | 17       | 1,098        | 4,457                  | 3,011         | 94        | 7,562        |
| <b>End of 1978, as Previously Reported</b> .....  | 460                          | 549           | 24       | 1,033        | 4,208                  | 3,353         | 113       | 7,674        |
| Royalty adjustment (3) .....                      | —                            | (5)           | —        | (5)          | (321)                  | (326)         | (47)      | (694)        |
| Long-term supply agreements (3) .....             | —                            | —             | (8)      | (8)          | —                      | —             | (19)      | (19)         |
| Subsequent event (4) .....                        | —                            | (26)          | —        | (26)         | —                      | (392)         | —         | (392)        |
| Reclassified to undeveloped .....                 | (5)                          | —             | —        | (5)          | —                      | —             | —         | —            |
| <b>End of 1978, Revised</b> .....                 | 455                          | 518           | 16       | 989          | 3,887                  | 2,635         | 47        | 6,569        |
| <b>End of 1979 (5)</b> .....                      | <b>441</b>                   | <b>486</b>    | <b>—</b> | <b>927</b>   | <b>3,523</b>           | <b>3,131</b>  | <b>53</b> | <b>6,707</b> |
| <b>LONG-TERM SUPPLY AGREEMENTS</b>                |                              |               |          |              |                        |               |           |              |
| <b>End of 1978</b> .....                          | —                            | —             | 8        | 8            | —                      | —             | 19        | 19           |
| Received during year .....                        | —                            | —             | 8        | 8            | —                      | —             | —         | —            |
| <b>End of 1979</b> .....                          | —                            | —             | 5        | 5            | —                      | —             | 19        | 19           |
| Received during year .....                        | —                            | —             | 2        | 2            | —                      | —             | —         | —            |

(1) Includes crude oil quantities attributable to fluid injection pressure maintenance programs planned for the Prudhoe Bay Field in Alaska (estimated 27 million barrels) and designed into the development program for the Maureen Field in the U.K. sector of the North Sea.

(2) Includes an estimated 132 (1978) and 132 (1979) billion cubic feet of natural gas reserves from Prudhoe Bay Field in Alaska and 650 (1978) and 905 (1979) billion cubic feet of natural gas reserves from fields in Nigeria for which there presently is no market.

(3) Reserves of natural gas and natural gas liquids of outside royalty interests, and reserves available through long-term supply agreements with foreign governments or authorities, for which the company acts as producer, have been deleted to comply with FASB Statement No. 19.

(4) Europe-Africa reserves have been revised and reduced as a result of information from ongoing development drilling in two fields in the Greater Ekofisk Area in the Norwegian North Sea.

(5) See discussion of "Reserves" on page 6 for additional information.

## SUPPLEMENTARY INFORMATION ON CHANGING PRICES AND THE EFFECTS OF GENERAL INFLATION – UNAUDITED

The following supplementary information was prepared in accordance with FASB Statement No. 33, "Financial Reporting and Changing Prices." Its purpose is to help readers better understand the impact of inflation on the company. The constant dollar information was calculated using the same accounting policies and practices as were used for historical dollar accounting. The 1980 Annual Report will disclose the impact of "current cost" (as provided in FASB Statement No. 33) on the 1979 financial statements.

### CONSOLIDATED SUMMARY STATEMENT OF INCOME AND OTHER CHANGES IN NET ASSETS

|  | Millions of Dollars<br>Except Per Share Amounts |                  |
|--|---|------------------|
|  | Year Ended December 31, 1979                    |                  |
|  | Historical                                      | Constant Dollars |
| <b>Revenues (1)</b> .....  | \$9,745   | \$9,745          |
| <b>Costs and Expenses</b>  |   |                  |
| Costs and operating expenses (2) .....   | 6,348   | 6,358            |
| Depreciation, depletion, amortization and retirements (3) .....                | 647   | 868              |
| Other expenses .....   | 614   | 614              |
| Provision for income taxes (4) .....   | 1,245   | 1,245            |
| <b>Net Income</b> .....  | \$ 891  | \$ 660           |
| <b>Net Income Per Share</b> .....  | \$ 5.77   | \$ 4.27          |
| <b>Unrealized Gain Attributable to Net Monetary<br/>Amounts Owed (5)</b> ..... |   | \$ 116           |
| <b>Net Assets at End of Year (6)</b> .....                                     | \$4,257   | \$5,833          |

### FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA

|  | Millions of Dollars Except Per Share Amounts |         |         |         |         |
|--|--|---------|---------|---------|---------|
|  | Years Ended December 31                      |         |         |         |         |
|  | 1979   | 1978    | 1977    | 1976    | 1975    |
| <b>REVENUES</b>  |  |         |         |         |         |
| <b>In Historical Dollars</b> .....                                   | \$9,745                                      | \$7,422 | \$6,406 | \$5,837 | \$5,213 |
| In constant dollars .....  | 9,745  | 8,258   | 7,673   | 7,443   | 7,030   |
| <b>DIVIDENDS PAID PER SHARE</b>                                      |  |         |         |         |         |
| <b>In Historical Dollars</b> .....                                   | \$ 1.35                                      | \$ 1.20 | \$ .98  | \$ .88  | \$ .80  |
| In constant dollars .....  | 1.35   | 1.33    | 1.17    | 1.12    | 1.08    |
| <b>MARKET PRICE PER SHARE</b>  |  |         |         |         |         |
| <b>In Historical Dollars</b> (at year-end) .....                     | \$48.00                                      | \$31.63 | \$30.63 | \$33.06 | \$27.13 |
| In constant dollars (average 1979 dollars) .....                     | 45.39  | 33.89   | 35.78   | 41.24   | 35.46   |
| Average Consumer Price Index used for restatement purposes (7) ..... | 217.4  | 195.4   | 181.5   | 170.5   | 161.2   |

(1) Historical revenues are stated in average 1979 dollars. Since constant dollars have the same general purchasing power as average 1979 dollars, 1979 historical revenues are the same as constant dollar revenues.

(2) Historical costs and operating expenses include the cost of certain LIFO inventory volumes liquidated during 1979. Stated in constant dollars such costs are \$10 million higher.

(3) Depreciation, depletion, amortization and retirements calculated using properties, plants and equipment stated in constant dollars is \$221 million greater than the historical dollar amount.

(4) In accordance with FASB Statement No. 33, the provision for income taxes was not restated.

(5) At December 31, 1979 monetary liabilities (current liabilities, long-term debt, deferred income taxes and most other non-current liabilities) exceeded monetary assets (cash and time deposits, short-term investments, accounts and notes receivable and similar items). Since these monetary liabilities may be retired over time using lower purchasing power dollars, a gain may be realized in the future. The estimated unrealized gain attributable to net monetary amounts owed of \$116 million is not included in the constant dollar net income.

(6) Constant dollar net assets consist of historical stockholders' equity adjusted for the increase in non-monetary assets (inventories, properties, plants and equipment and related items) arising from restatement in constant dollars and the unrealized gain attributable to the net monetary amounts owed, see note (5) above.

(7) The Consumer Price Index for all urban consumers (published by the U. S. Department of Labor) was used to adjust historical dollars to dollars of the same general purchasing power (constant dollars).



# TEN-YEAR FINANCIAL REVIEW

## CONSOLIDATED STATEMENTS OF INCOME

Millions of Dollars Except Per Share Amounts

|  | 1979          | 1978         | 1977         | 1976         | 1975         | 1974         | 1973         | 1972         | 1971         | 1970         |
|--|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Sales and other operating revenues:                                      |               |              |              |              |              |              |              |              |              |              |
| Natural resources  | \$1,694       | 1,349        | 904          | 817          | 753          | 623          | 429          | 387          | 368          | 365          |
| Petroleum products   | 5,724         | 4,252        | 4,103        | 3,635        | 3,307        | 3,016        | 1,661        | 1,479        | 1,443        | 1,413        |
| Chemicals  | 2,057         | 1,384        | 1,274        | 1,230        | 1,058        | 1,319        | 882          | 630          | 537          | 482          |
| Other  | 28            | 13           | 3            | 16           | 16           | 23           | 18           | 17           | 15           | 13           |
| Total sales and other operating revenues                                 | 9,503         | 6,998        | 6,284        | 5,698        | 5,134        | 4,981        | 2,990        | 2,513        | 2,363        | 2,273        |
| Sale of Pacific Petroleum Ltd.   | —             | 306          | —            | —            | —            | —            | —            | —            | —            | —            |
| Other revenues (including equity in earnings of nonsubsidiary companies) | 242           | 118          | 122          | 139          | 79           | 125          | 83           | 54           | 49           | 38           |
| <b>Total Revenues</b>  | <b>9,745</b>  | <b>7,422</b> | <b>6,406</b> | <b>5,837</b> | <b>5,213</b> | <b>5,106</b> | <b>3,073</b> | <b>2,567</b> | <b>2,412</b> | <b>2,311</b> |
| Costs and operating expenses   | 6,348         | 4,788        | 4,417        | 4,030        | 3,684        | 3,628        | 2,088        | 1,711        | 1,615        | 1,541        |
| Selling, general and administrative expenses                             | 367           | 284          | 292          | 322          | 322          | 311          | 291          | 298          | 288          | 288          |
| Depreciation, depletion, amortization and retirements                    | 647           | 449          | 315          | 296          | 312          | 261          | 239          | 223          | 201          | 198          |
| Taxes other than income taxes  | 150           | 115          | 104          | 93           | 94           | 85           | 69           | 64           | 60           | 58           |
| Interest and expense on indebtedness                                     | 97            | 79           | 82           | 68           | 50           | 53           | 62           | 59           | 63           | 54           |
| Provision for income taxes   | 1,245         | 989          | 665          | 616          | 416          | 352          | 94           | 64           | 53           | 52           |
| <b>Total Costs and Expenses</b>  | <b>8,854</b>  | <b>6,704</b> | <b>5,875</b> | <b>5,425</b> | <b>4,878</b> | <b>4,690</b> | <b>2,843</b> | <b>2,419</b> | <b>2,280</b> | <b>2,191</b> |
| Income before extraordinary items and accounting change                  | 891           | 718          | 531          | 412          | 335          | 416          | 230          | 148          | 132          | 120          |
| Extraordinary items and accounting change                                | —             | —            | —            | —            | —            | (28)         | (18)         | —            | —            | (9)          |
| <b>Net Income</b>  | <b>\$ 891</b> | <b>718</b>   | <b>531</b>   | <b>412</b>   | <b>335</b>   | <b>388</b>   | <b>212</b>   | <b>148</b>   | <b>132</b>   | <b>111</b>   |
| <b>Per Average Share Outstanding*</b>                                    |               |              |              |              |              |              |              |              |              |              |
| Income before extraordinary items and accounting change                  | \$5.77        | 4.66         | 3.46         | 2.70         | 2.20         | 2.74         | 1.52         | .99          | .89          | .81          |
| Net income   | \$5.77        | 4.66         | 3.46         | 2.70         | 2.20         | 2.56         | 1.40         | .99          | .89          | .75          |
| Dividends per share*   | \$1.35        | 1.20         | .97½         | .87½         | .80          | .72½         | .65          | .65          | .65          | .65          |
| <b>Income before Extraordinary Items and Accounting Change</b>           |               |              |              |              |              |              |              |              |              |              |
| As percent of average total assets                                       | 12.0          | 11.8         | 9.8          | 8.4          | 7.6          | 10.4         | 6.4          | 4.6          | 4.3          | 3.9          |
| As percent of total revenues   | 9.1           | 9.7          | 8.3          | 7.1          | 6.4          | 8.1          | 7.5          | 5.8          | 5.5          | 5.2          |
| <b>Percent of Total Revenues from Sales Outside U.S.</b>                 | <b>25.3</b>   | <b>29.5</b>  | <b>21.1</b>  | <b>22.5</b>  | <b>18.6</b>  | <b>24.5</b>  | <b>21.5</b>  | <b>16.1</b>  | <b>17.4</b>  | <b>13.4</b>  |

## PROPERTIES, PLANTS AND EQUIPMENT

|                         |         |       |       |       |       |       |       |       |       |       |
|-------------------------|---------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Gross Investment</b> |         |       |       |       |       |       |       |       |       |       |
| Natural resources       | \$4,665 | 4,061 | 3,621 | 2,943 | 2,576 | 2,410 | 2,183 | 1,910 | 1,803 | 1,757 |
| Petroleum products      | 1,713   | 1,331 | 1,242 | 1,231 | 1,432 | 1,333 | 1,289 | 1,142 | 1,144 | 1,152 |
| Chemicals               | 1,140   | 1,062 | 949   | 800   | 742   | 707   | 841   | 764   | 733   | 684   |
| Other                   | 237     | 202   | 161   | 142   | 118   | 110   | 105   | 98    | 99    | 100   |
|                         | \$7,755 | 6,656 | 5,973 | 5,116 | 4,868 | 4,560 | 4,418 | 3,914 | 3,779 | 3,693 |
| <b>Net Investment</b>   |         |       |       |       |       |       |       |       |       |       |
| Natural resources       | \$2,869 | 2,477 | 2,204 | 1,618 | 1,356 | 1,171 | 1,001 | 818   | 759   | 745   |
| Petroleum products      | 1,106   | 742   | 634   | 635   | 726   | 659   | 642   | 559   | 592   | 635   |
| Chemicals               | 654     | 605   | 538   | 391   | 370   | 356   | 452   | 433   | 436   | 416   |
| Other                   | 149     | 121   | 91    | 77    | 54    | 50    | 49    | 48    | 51    | 54    |
|                         | \$4,778 | 3,945 | 3,467 | 2,721 | 2,506 | 2,236 | 2,144 | 1,858 | 1,838 | 1,850 |

\*Adjusted for two-for-one stock split in 1977.

Note — Financial data for 1976, 1975, 1974 and 1973 have been restated to reflect adoption of FASB Statement No. 13, "Accounting for Leases."

Note — Financial data for 1978, 1977, 1976, 1975 and 1974 have been restated effective Jan. 1, 1974, to reflect adoption of FASB Statement No. 19 (see Note 2 of notes to financial statements).

# TEN-YEAR FINANCIAL REVIEW

## CONSOLIDATED BALANCE SHEETS AT DECEMBER 31

Millions of Dollars Except Per Share Amounts

|   | 1979           | 1978         | 1977         | 1976         | 1975         | 1974         | 1973         | 1972         | 1971         | 1970         |
|---|----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>ASSETS</b>   |                |              |              |              |              |              |              |              |              |              |
| <b>Current Assets</b>   |                |              |              |              |              |              |              |              |              |              |
| Cash and short-term investments . . .                           | \$1,300        | 1,136        | 327          | 702          | 523          | 393          | 441          | 338          | 225          | 137          |
| Accounts and notes receivable — net                             | 1,431          | 845          | 791          | 715          | 634          | 616          | 507          | 384          | 383          | 410          |
| Inventories:  |                |              |              |              |              |              |              |              |              |              |
| Crude oil, petroleum products and chemicals . . . . .           | 459            | 386          | 370          | 315          | 326          | 356          | 226          | 231          | 241          | 213          |
| Merchandise . . . . .   | 20             | 17           | 15           | 13           | 14           | 13           | 13           | 15           | 19           | 22           |
| Materials and supplies . . . . .                                | 125            | 108          | 113          | 118          | 129          | 92           | 50           | 35           | 36           | 36           |
| Prepaid expenses and other current assets . . . . .             | 51             | 69           | 79           | 41           | 39           | 28           | 27           | 17           | 20           | 30           |
| <b>Total Current Assets . . . . .</b>                           | <b>3,386</b>   | <b>2,561</b> | <b>1,695</b> | <b>1,904</b> | <b>1,665</b> | <b>1,498</b> | <b>1,264</b> | <b>1,020</b> | <b>924</b>   | <b>848</b>   |
| <b>Investments and Long-Term</b>                                |                |              |              |              |              |              |              |              |              |              |
| <b>Receivables — Net . . . . .</b>                              | <b>276</b>     | <b>230</b>   | <b>501</b>   | <b>460</b>   | <b>437</b>   | <b>399</b>   | <b>423</b>   | <b>378</b>   | <b>392</b>   | <b>362</b>   |
| <b>Properties, Plants and</b>                                   |                |              |              |              |              |              |              |              |              |              |
| <b>Equipment — Net . . . . .</b>                                | <b>4,778</b>   | <b>3,945</b> | <b>3,467</b> | <b>2,721</b> | <b>2,506</b> | <b>2,236</b> | <b>2,144</b> | <b>1,858</b> | <b>1,838</b> | <b>1,850</b> |
| <b>Deferred Charges . . . . .</b>                               | <b>79</b>      | <b>98</b>    | <b>79</b>    | <b>60</b>    | <b>43</b>    | <b>21</b>    | <b>17</b>    | <b>14</b>    | <b>13</b>    | <b>11</b>    |
|   | <b>\$8,519</b> | <b>6,834</b> | <b>5,742</b> | <b>5,145</b> | <b>4,651</b> | <b>4,154</b> | <b>3,848</b> | <b>3,270</b> | <b>3,167</b> | <b>3,071</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                     |                |              |              |              |              |              |              |              |              |              |
| <b>Current Liabilities</b>                                      |                |              |              |              |              |              |              |              |              |              |
| Accounts and notes payable . . . . .                            | \$1,261        | 797          | 674          | 559          | 526          | 543          | 401          | 276          | 254          | 280          |
| Long-term debt and obligations due within one year . . . . .    | 82             | 86           | 80           | 70           | 73           | 62           | 82           | 53           | 52           | 106          |
| Accrued taxes . . . . .   | 1,228          | 807          | 413          | 429          | 262          | 265          | 118          | 113          | 103          | 115          |
| Deferred income taxes . . . . .                                 | 29             | 20           | —            | —            | —            | —            | —            | —            | —            | —            |
| Other accruals . . . . .  | 78             | 60           | 60           | 51           | 49           | 43           | 44           | 41           | 36           | 30           |
| <b>Total Current Liabilities . . . . .</b>                      | <b>2,678</b>   | <b>1,770</b> | <b>1,227</b> | <b>1,109</b> | <b>910</b>   | <b>913</b>   | <b>645</b>   | <b>483</b>   | <b>445</b>   | <b>531</b>   |
| <b>Long-Term Debt . . . . .</b>                                 | <b>648</b>     | <b>676</b>   | <b>767</b>   | <b>839</b>   | <b>893</b>   | <b>658</b>   | <b>799</b>   | <b>792</b>   | <b>800</b>   | <b>688</b>   |
| <b>Other Long-Term Liabilities . . . . .</b>                    | <b>154</b>     | <b>89</b>    | <b>49</b>    | <b>1</b>     | <b>2</b>     | <b>2</b>     | <b>—</b>     | <b>—</b>     | <b>—</b>     | <b>—</b>     |
| <b>Obligations Under Capital Leases . . . . .</b>               | <b>97</b>      | <b>121</b>   | <b>156</b>   | <b>176</b>   | <b>200</b>   | <b>221</b>   | <b>242</b>   | <b>—</b>     | <b>—</b>     | <b>—</b>     |
| <b>Accrued Contingent Liabilities . . . . .</b>                 | <b>135</b>     | <b>144</b>   | <b>94</b>    | <b>60</b>    | <b>66</b>    | <b>60</b>    | <b>90</b>    | <b>67</b>    | <b>61</b>    | <b>57</b>    |
| <b>Deferred Income Taxes . . . . .</b>                          | <b>464</b>     | <b>392</b>   | <b>350</b>   | <b>257</b>   | <b>170</b>   | <b>35</b>    | <b>48</b>    | <b>61</b>    | <b>63</b>    | <b>57</b>    |
| <b>Other Deferred Credits . . . . .</b>                         | <b>75</b>      | <b>57</b>    | <b>71</b>    | <b>73</b>    | <b>75</b>    | <b>77</b>    | <b>74</b>    | <b>42</b>    | <b>42</b>    | <b>35</b>    |
| <b>Minority Interest in Consolidated Subsidiaries . . . . .</b> |                |              |              |              |              |              |              |              |              |              |
|   | <b>11</b>      | <b>10</b>    | <b>10</b>    | <b>11</b>    | <b>12</b>    | <b>8</b>     | <b>5</b>     | <b>5</b>     | <b>7</b>     | <b>10</b>    |
| <b>Stockholders' Equity</b>                                     |                |              |              |              |              |              |              |              |              |              |
| Common stock, \$1.25 par value . . .                            | 193            | 193          | 192          | 191          | 191          | 191          | 190          | 190          | 190          | 190          |
| Capital in excess of par value . . . .                          | 511            | 511          | 489          | 472          | 455          | 451          | 444          | 441          | 437          | 433          |
| Earnings employed in the business . .                           | 3,553          | 2,871        | 2,337        | 1,956        | 1,677        | 1,542        | 1,326        | 1,212        | 1,161        | 1,126        |
|   | <b>4,257</b>   | <b>3,575</b> | <b>3,018</b> | <b>2,619</b> | <b>2,323</b> | <b>2,184</b> | <b>1,960</b> | <b>1,843</b> | <b>1,788</b> | <b>1,749</b> |
| Treasury stock, at cost . . . . .                               | —              | —            | —            | —            | —            | (4)          | (15)         | (23)         | (39)         | (56)         |
| <b>Total Stockholders' Equity . . . . .</b>                     | <b>4,257</b>   | <b>3,575</b> | <b>3,018</b> | <b>2,619</b> | <b>2,323</b> | <b>2,180</b> | <b>1,945</b> | <b>1,820</b> | <b>1,749</b> | <b>1,693</b> |
|   | <b>\$8,519</b> | <b>6,834</b> | <b>5,742</b> | <b>5,145</b> | <b>4,651</b> | <b>4,154</b> | <b>3,848</b> | <b>3,270</b> | <b>3,167</b> | <b>3,071</b> |
| <b>Stockholders' Equity Per Share* . . .</b>                    | <b>\$27.57</b> | <b>23.15</b> | <b>19.63</b> | <b>17.11</b> | <b>15.23</b> | <b>14.32</b> | <b>12.85</b> | <b>12.07</b> | <b>11.70</b> | <b>11.43</b> |

\*Adjusted for two-for-one stock split in 1977.

Note — Financial data for 1976, 1975, 1974 and 1973 have been restated to reflect adoption of FASB Statement No. 13, "Accounting for Leases."

Note — Financial data for 1978, 1977, 1976, 1975 and 1974 have been restated effective Jan. 1, 1974 to reflect adoption of FASB Statement No. 19 (see Note 2 of notes to financial statements).



# TEN-YEAR FINANCIAL REVIEW

## CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

|  | Millions of Dollars |       |       |       |       |      |      |      |      |      |
|--|---------------------|-------|-------|-------|-------|------|------|------|------|------|
|  | 1979                | 1978  | 1977  | 1976  | 1975  | 1974 | 1973 | 1972 | 1971 | 1970 |
| <b>Source</b>  |                     |       |       |       |       |      |      |      |      |      |
| Funds from operations .....  | \$1,592             | 1,084 | 969   | 803   | 710   | 728  | 469  | 367  | 333  | 317  |
| Long-term debt .....   | 30                  | 3     | 76    | 67    | 325   | 85   | 86   | 50   | 257  | 10   |
| Property sales and retirements<br>(including extraordinary items) .. | 60                  | 51    | 53    | 199   | 99    | 107  | 43   | 29   | 44   | 31   |
| Sales of investments (including<br>extraordinary items) .....        | 36                  | 449   | 1     | 24    | 4     | 20   | 10   | 26   | 14   | 23   |
| Capital stock .....  | —                   | 23    | 17    | 18    | 8     | 18   | 12   | 20   | 21   | —    |
| Other .....  | 23                  | 43    | 18    | —     | 1     | 15   | 29   | 1    | (3)  | 3    |
|  | \$1,741             | 1,653 | 1,134 | 1,111 | 1,147 | 973  | 649  | 493  | 666  | 384  |
| <b>Application</b>   |                     |       |       |       |       |      |      |      |      |      |
| Properties, plants and equipment:                                    |                     |       |       |       |       |      |      |      |      |      |
| Natural resources .....  | \$ 876              | 589   | 793   | 471   | 476   | 420  | 245  | 196  | 143  | 132  |
| Petroleum products .....   | 423                 | 187   | 83    | 110   | 140   | 92   | 46   | 28   | 27   | 40   |
| Chemicals .....  | 114                 | 126   | 161   | 121   | 57    | 68   | 36   | 39   | 52   | 62   |
| Other .....  | 41                  | 38    | 41    | 14    | 6     | 7    | 2    | 2    | 3    | 5    |
| Total properties, plants<br>and equipment .....                      | 1,454               | 940   | 1,078 | 716   | 679   | 587  | 329  | 265  | 225  | 239  |
| Investments .....  | 40                  | 19    | 36    | 36    | 35    | 9    | 23   | 6    | 23   | 7    |
| Reduction in long-term debt .....                                    | 84                  | 136   | 163   | 149   | 113   | 255  | 102  | 58   | 145  | 110  |
| Cash dividends .....   | 208                 | 185   | 150   | 134   | 122   | 110  | 98   | 98   | 97   | 96   |
| Other .....  | 38                  | 50    | 34    | 35    | 29    | 46   | (4)  | 8    | 16   | 22   |
| Increase (decrease) in<br>working capital .....                      | (83)                | 323   | (327) | 41    | 169   | (34) | 101  | 58   | 160  | (90) |
|  | \$1,741             | 1,653 | 1,134 | 1,111 | 1,147 | 973  | 649  | 493  | 666  | 384  |

## CHEMICALS

### Operating Revenues

|                                |         |       |       |       |       |       |     |     |     |     |
|--------------------------------|---------|-------|-------|-------|-------|-------|-----|-----|-----|-----|
| Basic petrochemicals           |         |       |       |       |       |       |     |     |     |     |
| and specialty chemicals .....  | \$ 813  | 478   | 420   | 417   | 319   | 424   | 167 | 119 | 108 | 102 |
| Plastic resins .....           | 427     | 243   | 220   | 209   | 130   | 131   | 95  | 62  | 51  | 51  |
| Rubber chemicals .....         | 296     | 254   | 222   | 190   | 165   | 173   | 111 | 93  | 81  | 71  |
| Consumer products .....        | 229     | 194   | 174   | 160   | 152   | 138   | 110 | 100 | 87  | 94  |
| Fertilizers .....              | 80      | 63    | 77    | 78    | 114   | 160   | 158 | 101 | 92  | 72  |
| Synthetic fibers .....         | 77      | 73    | 76    | 71    | 92    | 161   | 151 | 103 | 70  | 58  |
| Other sales and services ..... | 135     | 79    | 85    | 105   | 86    | 132   | 90  | 52  | 48  | 34  |
|                                | \$2,057 | 1,384 | 1,274 | 1,230 | 1,058 | 1,319 | 882 | 630 | 537 | 482 |

## OTHER DATA

|                                   |        |       |       |       |       |       |       |       |       |       |
|-----------------------------------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Millions of shares outstanding    |        |       |       |       |       |       |       |       |       |       |
| at year-end* .....                | 154.4  | 154.4 | 153.7 | 153.1 | 152.5 | 152.2 | 151.4 | 150.8 | 149.5 | 148.1 |
| Thousands of stockholders         |        |       |       |       |       |       |       |       |       |       |
| at year-end .....                 | 121.2  | 122.6 | 122.3 | 120.2 | 126.9 | 131.6 | 136.0 | 153.3 | 166.0 | 173.0 |
| Total payroll including           |        |       |       |       |       |       |       |       |       |       |
| employee benefits (millions) .... | \$ 863 | 720   | 613   | 550   | 529   | 479   | 415   | 387   | 353   | 335   |
| Thousands of employees            |        |       |       |       |       |       |       |       |       |       |
| at year-end .....                 | 30.3   | 30.0  | 28.4  | 27.8  | 30.5  | 30.8  | 33.4  | 35.3  | 33.3  | 32.2  |

\*Adjusted for two-for-one stock split in 1977.

## TEN-YEAR OPERATING REVIEW

### NATURAL RESOURCES

|   | Thousands of Barrels Daily |              |              |              |              |              |              |              |              |              |
|---|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|   | 1979                       | 1978         | 1977         | 1976         | 1975         | 1974         | 1973         | 1972         | 1971         | 1970         |
| <b>NET PRODUCTION OF LIQUID RAW MATERIALS</b> |                            |              |              |              |              |              |              |              |              |              |
| <b>Crude Oil — United States</b>              |                            |              |              |              |              |              |              |              |              |              |
| Texas .....                                   | 42.8                       | 45.5         | 48.4         | 50.8         | 54.2         | 56.3         | 57.7         | 57.7         | 54.9         | 54.6         |
| Alaska .....                                  | 26.4                       | 24.2         | 9.9          | 4.6          | 4.2          | 4.1          | 4.7          | 4.5          | 5.5          | 5.6          |
| Louisiana .....                               | 15.8                       | 15.7         | 17.4         | 18.4         | 18.0         | 19.6         | 21.5         | 23.3         | 24.8         | 29.6         |
| Oklahoma .....                                | 9.0                        | 9.8          | 10.1         | 10.5         | 10.4         | 11.8         | 13.7         | 17.5         | 15.6         | 15.5         |
| New Mexico .....                              | 5.4                        | 5.6          | 6.2          | 6.8          | 6.9          | 7.4          | 8.0          | 9.0          | 9.8          | 10.4         |
| Arkansas .....                                | 3.9                        | 4.5          | 4.7          | 4.1          | 4.1          | 3.1          | 2.4          | 2.7          | 2.6          | 2.7          |
| Wyoming .....                                 | 3.4                        | 4.1          | 4.7          | 4.6          | 4.2          | 4.5          | 2.0          | 2.7          | 3.7          | 6.3          |
| Other states .....                            | 14.7                       | 15.6         | 15.6         | 15.5         | 16.4         | 16.7         | 12.3         | 12.8         | 13.2         | 14.2         |
| <b>Total United States</b>                    | <b>121.4</b>               | <b>125.0</b> | <b>117.0</b> | <b>115.3</b> | <b>118.4</b> | <b>123.5</b> | <b>122.3</b> | <b>130.2</b> | <b>130.1</b> | <b>138.9</b> |
| <b>Crude Oil — Outside United States</b>      |                            |              |              |              |              |              |              |              |              |              |
| Europe .....                                  | 119.4                      | 116.8        | 93.1         | 92.8         | 63.1         | 11.5         | 10.7         | 11.0         | 2.3          | —            |
| Africa .....                                  | 41.2                       | 44.9         | 43.6         | 38.6         | 33.8         | 38.1         | 35.5         | 23.2         | 25.5         | 20.0         |
| Southeast Asia .....                          | 6.1                        | 18.3         | 5.6          | —            | —            | —            | —            | —            | —            | —            |
| Middle East .....                             | —                          | 5.4          | 5.6          | 5.9          | 6.2          | 9.1          | 9.1          | 12.6         | 14.0         | 12.2         |
| Latin America .....                           | —                          | —            | —            | —            | 15.5         | 20.8         | 23.1         | 19.5         | 19.5         | 20.6         |
| <b>Total Outside United States</b>            | <b>166.7</b>               | <b>185.4</b> | <b>147.9</b> | <b>137.3</b> | <b>118.6</b> | <b>79.5</b>  | <b>78.4</b>  | <b>66.3</b>  | <b>61.3</b>  | <b>52.8</b>  |
| <b>Total Crude Oil</b>                        | <b>288.1</b>               | <b>310.4</b> | <b>264.9</b> | <b>252.6</b> | <b>237.0</b> | <b>203.0</b> | <b>200.7</b> | <b>196.5</b> | <b>191.4</b> | <b>191.7</b> |
| <b>Natural Gas Liquids</b>                    |                            |              |              |              |              |              |              |              |              |              |
| United States .....                           | 141.6                      | 133.8        | 138.2        | 130.8        | 125.9        | 132.2        | 134.8        | 137.5        | 135.4        | 131.8        |
| Europe .....                                  | 6.3                        | .2           | .2           | .3           | .3           | .3           | .3           | .3           | .2           | .2           |
| Latin America .....                           | —                          | —            | —            | —            | 1.8          | 2.3          | 2.3          | 2.4          | 2.6          | 2.2          |
| <b>Total Natural Gas Liquids</b>              | <b>147.9</b>               | <b>134.0</b> | <b>138.4</b> | <b>131.1</b> | <b>128.0</b> | <b>134.8</b> | <b>137.4</b> | <b>140.2</b> | <b>138.2</b> | <b>134.2</b> |
| <b>Total All Liquids</b>                      | <b>436.0</b>               | <b>444.4</b> | <b>403.3</b> | <b>383.7</b> | <b>365.0</b> | <b>337.8</b> | <b>338.1</b> | <b>336.7</b> | <b>329.6</b> | <b>325.9</b> |

|                                     | Millions of Cubic Feet Daily |              |              |              |              |              |              |              |              |              |
|-------------------------------------|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                     | 1979                         | 1978         | 1977         | 1976         | 1975         | 1974         | 1973         | 1972         | 1971         | 1970         |
| <b>NET NATURAL GAS PRODUCTION</b>   |                              |              |              |              |              |              |              |              |              |              |
| United States .....                 | 1,072                        | 1,130        | 1,159        | 1,247        | 1,312        | 1,433        | 1,481        | 1,534        | 1,566        | 1,591        |
| Europe .....                        | 485                          | 419          | 184          | 133          | 125          | 116          | 94           | 85           | 58           | 40           |
| Canada .....                        | 1                            | —            | —            | —            | —            | —            | —            | —            | —            | —            |
| Latin America .....                 | —                            | —            | —            | —            | 18           | 21           | 28           | 34           | 41           | 48           |
| <b>Total Natural Gas Production</b> | <b>1,558</b>                 | <b>1,549</b> | <b>1,343</b> | <b>1,380</b> | <b>1,455</b> | <b>1,570</b> | <b>1,603</b> | <b>1,653</b> | <b>1,665</b> | <b>1,679</b> |

|                                | Net Wells    |              |              |              |              |              |              |              |              |              |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                | 1979         | 1978         | 1977         | 1976         | 1975         | 1974         | 1973         | 1972         | 1971         | 1970         |
| <b>OIL AND GAS WELLS</b>       |              |              |              |              |              |              |              |              |              |              |
| <b>United States</b>           |              |              |              |              |              |              |              |              |              |              |
| Oil .....                      | 6,104        | 6,141        | 6,210        | 6,202        | 6,191        | 6,184        | 5,806        | 5,795        | 6,004        | 6,316        |
| Gas and condensate .....       | 2,185        | 2,164        | 2,132        | 2,129        | 2,122        | 2,086        | 2,006        | 1,945        | 1,936        | 1,964        |
| <b>Outside United States</b>   |              |              |              |              |              |              |              |              |              |              |
| All wells .....                | 100          | 79           | 105          | 91           | 82           | 267          | 262          | 249          | 310          | 312          |
| <b>Total Oil and Gas Wells</b> | <b>8,389</b> | <b>8,384</b> | <b>8,447</b> | <b>8,422</b> | <b>8,395</b> | <b>8,537</b> | <b>8,074</b> | <b>7,989</b> | <b>8,250</b> | <b>8,592</b> |



# TEN-YEAR OPERATING REVIEW

| NATURAL RESOURCES                    | Millions of Acres |             |             |             |             |             |             |             |             |             |
|--------------------------------------|-------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                                      | 1979              | 1978        | 1977        | 1976        | 1975        | 1974        | 1973        | 1972        | 1971        | 1970        |
| <b>NET OIL AND GAS ACREAGE</b>       |                   |             |             |             |             |             |             |             |             |             |
| United States                        | 6.2               | 6.1         | 6.0         | 6.6         | 7.2         | 7.2         | 6.8         | 5.8         | 5.4         | 5.3         |
| Canada                               | 2.7               | 2.6         | 2.1         | 3.2         | 3.4         | 3.5         | 3.2         | 2.8         | 2.2         | 2.2         |
| Latin America                        | 18.1              | 20.3        | 4.7         | 3.6         | 12.2        | 13.0        | 5.8         | 3.3         | 7           | 3.2         |
| Europe                               | 3.0               | 1.4         | 1.0         | 1.4         | 1.5         | 1.5         | 1.4         | 1.3         | 1.2         | 1.4         |
| Africa                               | 9.7               | 15.3        | 6.9         | 7.2         | 8.0         | 13.2        | 9.9         | 13.8        | 8.4         | 9.0         |
| Middle East                          | —                 | —           | —           | 1.7         | 1.8         | 3.0         | 3.0         | 2.9         | 13.8        | 13.8        |
| Southeast Asia                       | 5.9               | 5.3         | 10.2        | 25.0        | 28.6        | 32.1        | 37.3        | 31.0        | 38.9        | 47.1        |
| New Zealand and Australia            | 1.6               | 22.5        | 23.8        | 23.7        | 1.5         | 5.3         | 6.1         | 6.0         | 6.3         | 7.3         |
| <b>Total Net Oil and Gas Acreage</b> | <b>47.2</b>       | <b>73.5</b> | <b>54.7</b> | <b>72.4</b> | <b>64.2</b> | <b>78.8</b> | <b>73.5</b> | <b>66.9</b> | <b>76.9</b> | <b>89.3</b> |
| <b>Net Wells</b>                     |                   |             |             |             |             |             |             |             |             |             |
| <b>WELL COMPLETIONS</b>              |                   |             |             |             |             |             |             |             |             |             |
| <b>United States</b>                 |                   |             |             |             |             |             |             |             |             |             |
| Exploratory                          | 10                | 6           | 5           | 18          | 44          | 53          | 38          | 37          | 21          | 25          |
| Development                          | 118               | 94          | 134         | 161         | 172         | 136         | 156         | 86          | 70          | 67          |
| <b>Outside United States</b>         |                   |             |             |             |             |             |             |             |             |             |
| Exploratory                          | 32                | 20          | 14          | 13          | 21          | 24          | 23          | 19          | 20          | 20          |
| Development                          | 11                | 3           | 6           | 8           | 12          | 16          | 9           | 4           | 18          | 4           |
| <b>Total Well Completions</b>        | <b>171</b>        | <b>123</b>  | <b>159</b>  | <b>200</b>  | <b>249</b>  | <b>229</b>  | <b>226</b>  | <b>146</b>  | <b>129</b>  | <b>116</b>  |
| <b>PETROLEUM PRODUCTS</b>            |                   |             |             |             |             |             |             |             |             |             |
| <b>Thousands of Barrels Daily</b>    |                   |             |             |             |             |             |             |             |             |             |
| <b>REFINERY CAPACITY</b>             |                   |             |             |             |             |             |             |             |             |             |
| <b>United States</b>                 |                   |             |             |             |             |             |             |             |             |             |
| Crude oil                            | 302               | 323         | 323         | 323         | 408         | 408         | 404         | 404         | 399         | 398         |
| Natural gas liquids                  | 176               | 186         | 186         | 186         | 165         | 165         | 165         | 165         | 165         | 165         |
| <b>Outside United States</b>         |                   |             |             |             |             |             |             |             |             |             |
| Crude oil                            | —                 | —           | —           | —           | —           | 6           | 4           | 4           | 24          | 24          |
| <b>Total Refinery Capacity</b>       | <b>478</b>        | <b>509</b>  | <b>509</b>  | <b>509</b>  | <b>573</b>  | <b>579</b>  | <b>573</b>  | <b>573</b>  | <b>588</b>  | <b>587</b>  |
| <b>REFINERY RUNS</b>                 |                   |             |             |             |             |             |             |             |             |             |
| <b>United States</b>                 |                   |             |             |             |             |             |             |             |             |             |
| Crude oil                            | 287               | 302         | 297         | 318         | 368         | 373         | 395         | 386         | 371         | 364         |
| Natural gas liquids                  | 153               | 138         | 153         | 142         | 133         | 148         | 147         | 156         | 155         | 160         |
| <b>Outside United States</b>         |                   |             |             |             |             |             |             |             |             |             |
| Crude oil                            | —                 | —           | —           | —           | 2           | 1           | 2           | 3           | 8           | 15          |
| <b>Total Refinery Runs</b>           | <b>440</b>        | <b>440</b>  | <b>450</b>  | <b>460</b>  | <b>503</b>  | <b>522</b>  | <b>544</b>  | <b>545</b>  | <b>534</b>  | <b>539</b>  |
| <b>PETROLEUM PRODUCTS SOLD</b>       |                   |             |             |             |             |             |             |             |             |             |
| <b>United States</b>                 |                   |             |             |             |             |             |             |             |             |             |
| Automotive gasoline                  | 220               | 250         | 237         | 272         | 304         | 286         | 299         | 323         | 311         | 314         |
| Aviation fuels                       | 24                | 27          | 26          | 25          | 24          | 30          | 27          | 27          | 27          | 35          |
| Distillates                          | 82                | 82          | 72          | 87          | 99          | 100         | 95          | 101         | 98          | 106         |
| Liquefied petroleum gas              | 100               | 92          | 119         | 101         | 97          | 92          | 91          | 111         | 106         | 114         |
| Other products                       | 32                | 32          | 37          | 43          | 31          | 33          | 41          | 43          | 41          | 47          |
| <b>Total United States</b>           | <b>458</b>        | <b>483</b>  | <b>491</b>  | <b>528</b>  | <b>555</b>  | <b>541</b>  | <b>553</b>  | <b>605</b>  | <b>583</b>  | <b>616</b>  |
| <b>Outside United States</b>         |                   |             |             |             |             |             |             |             |             |             |
| (including exports)                  | 50                | 33          | 41          | 49          | 56          | 60          | 84          | 72          | 88          | 64          |
| <b>Total Petroleum Products Sold</b> | <b>508</b>        | <b>516</b>  | <b>532</b>  | <b>577</b>  | <b>611</b>  | <b>601</b>  | <b>637</b>  | <b>677</b>  | <b>671</b>  | <b>680</b>  |
| <b>MARKETING OUTLETS</b> (thousands) | <b>13.4</b>       | <b>13.6</b> | <b>14.8</b> | <b>15.6</b> | <b>17.7</b> | <b>18.6</b> | <b>21.2</b> | <b>23.7</b> | <b>24.4</b> | <b>25.4</b> |



## **PRODUCTS**

### **Automotive Gasolines**

#### **Diesel Fuel**

#### **Aviation Fuels:**

Gasolines  
Commercial and military jet fuels  
Anti-icing additive

#### **Stove Oil No. 1** (Range oil)

#### **Furnace Oil No. 2**

#### **Residual Fuel Oils**

#### **Liquefied Petroleum Gases:**

Motor fuel (propane, butane, butane-propane mixtures)  
Commercial propane  
Butane  
Butane-propane mixtures  
Normal and isobutane  
Ethane

#### **Kerosene**

#### **Crude Oil**

#### **Natural Gas**

#### **Liquefied Natural Gas**

#### **Lubricants:**

Automotive  
Industrial  
Farm and ranch  
Marine and fleet lubricants  
Aviation and snowmobile oils

#### **Tires and Tubes:**

Passenger car  
Truck  
Trailer  
Farm

#### **Batteries:**

Automobile  
Truck and bus  
Farm  
Marine  
Small vehicles

#### **Automotive Accessories:**

Anti-freeze  
Auto lamps  
Spark plugs  
Wiper blades  
Filters  
Belts  
Automotive chemicals

#### **Fertilizers:**

Anhydrous ammonia  
Aqua ammonia  
Ammonium nitrate  
Urea-ammonium nitrate solution  
Nitrate solution  
Mixed liquid fertilizer solutions

#### **Blasting Materials:**

Industrial ammonium nitrate

#### **Asphalt and Asphalt Emulsions**

### **Road Oils**

#### **Wax**

#### **Helium:**

High-purity gas and liquid  
Cryogenic hardware

#### **Rubber Chemicals:**

Butadiene  
Carbon black  
MTBE  
Synthetic elastomers and plastomers  
Extender oils  
Plastomer compounds

#### **Plastic Resins:**

Polyethylenes  
Polypropylenes  
Polyphenylene sulfide  
Butadiene-styrene copolymers

#### **Rigid Packaging:**

Paperboard and plastic  
containers for consumer  
and industrial products

#### **Rigid Packaging Machinery**

#### **Polypropylene Packaging Material:**

Decorative and functional

#### **Plastic Tubular Goods:**

Plastic pipe and fittings  
Conduit and duct  
Corrugated conduit

#### **Custom Fabricated Plastic Products**

For the automotive, appliance, radio  
and TV industries

#### **Other Plastic Products:**

Horticulture ware  
Bakery handling equipment  
Fifth wheel liner  
Guy wire guard  
Poultry and egg handling equipment  
Plastic color concentrates  
Decorator shutters

#### **Coating or Laminating Plastics and**

#### **Other Materials**

To paper, foil and substrates for the  
paper, packaging, automotive, food,  
locker and specialty fields

#### **Release Paper and Film**

#### **Special Chemicals:**

Aliphatic solvents such as pentanes,  
hexanes, heptanes  
Benzene  
Binder for solid rocket fuels  
Calcium petroleum sulfonates  
Carburetor detergent  
Cyclohexane  
Drilling mud and cement additives  
Ethylene  
High-purity hydrocarbons for  
research and development (available  
in several grades of purity) —  
aromatics, cycloolefins, cycloparaffins,

diolefins, olefins, paraffins,  
alkylaroinatics  
Hydrocarbon aerosol propellants  
Hydroxyethylcellulose  
Methylvinylpyridine  
Mixed xylenes  
Odorless solvents  
Orthoxylene  
Paraxylene  
Polyacrylamides  
Sulfur chemicals:  
Odorants for natural gas and  
LP-gas  
Mercaptan intermediates (for  
agricultural chemicals and other  
uses) such as ethyl, n-propyl,  
n-butyl and n-dodecyl mercaptans,  
tertiary mercaptans and ethylthio-  
ethanol  
Sulfolane and sulfolene  
2-Mercaptoethanol  
Polymerization solvents  
Propylene  
Reference fuels  
Sealant polymer  
Special fuels  
Sulfur  
Sulfuric acid  
Toluene  
Viscosity index improver

#### **Tubing and Metal Products:**

Stainless steel and nickel alloy tubing  
for aerospace and other industries  
Fabricated parts for automotive,  
refrigeration and other industries  
Patio and porch furniture

#### **Man-Made Fibers:**

Olefin yarn and staple  
Nonwoven fabrics

#### **Construction Materials:**

Civil engineering fabric

## **SERVICES**

### **Laboratory Evaluations of Petroleum Reservoirs and Process Designs for Enhanced Oil Recovery**

### **Process Evaluation Service and Analysis and Computer Control Systems for Petroleum, Petrochemical and Chemical Industries**

### **Radio Frequency Geophysical Data Collection Systems**

### **Tanker Hauling**

### **Terminaling Services**

### **LPG Importing Services**

### **Metallurgical Consulting Services**

### **Liquefied Natural Gas Technological Services**

### **Pipeline Transportation**

### **Project Management, Engineering Design and Process Engineering Services**



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**David B. Meeker,†‡** President and Chief Executive Officer, Hobart Corporation, Troy, Ohio, a manufacturer of food equipment and home appliances

**William Piel, Jr.,‡** partner in law firm of Sullivan & Cromwell, New York, New York

**W. A. Roberts,\*** Executive Vice President Natural Resources Group

**J. Lucian Smith,†** retired President and Chief Operating Officer of The Coca-Cola Company, Atlanta, Georgia

**W. Clarke Wescoe,\*\*†** Chairman of the Board of Directors and Chief Executive Officer of Sterling Drug Inc., New York, New York, a diversified pharmaceutical company

**Dolores D. Wharton,\*\*** writer, Albany, New York

**Francis M. Wheat,\*\*‡** partner in the law firm of Gibson, Dunn & Crutcher, Los Angeles, California

\* Member Executive Committee † Member Compensation Committee

\*\* Member Audit Committee ‡ Member Nominating Committee

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## PRINCIPAL OFFICERS AND MANAGERS

**W. F. Martin,** Chairman of the Board of Directors and Chief Executive Officer

**Wm. C. Douce,** President and Chief Operating Officer

### NATURAL RESOURCES GROUP

**W. A. Roberts,** Executive Vice President

**C. J. Silas,** Senior Vice President

**Edwin Van den Bark,** Senior Vice President Exploration and Production

**W. W. Dunn,** Vice President Latin America-Asia Exploration and Production

**L. M. Rickards,** Vice President North America Exploration and Production

**Owen D. Thomas,** Vice President Worldwide Exploration

**Paul W. Tucker,** Vice President Gas and Gas Liquids

**Earl Guitar,** Managing Director Europe-Africa Exploration and Production (London)

**W. R. Bohon,** President, Phillips Coal Company

**W. B. Belknap,** Manager Information Management

**C. D. Davidson,** Manager International Affairs and Administration

**W. R. Guthrie,** Manager Planning and Budgeting

**R. H. Jukes,** Manager Worldwide Production

**W. T. Kuepker,** Manager Accounting

**A. R. Rehrig,** Manager Operations Analysis and Control

**Fred Terry,** Manager Energy Minerals

**H. D. Powell,** Controller

### PETROLEUM PRODUCTS GROUP

**C. M. Kittrell,** Executive Vice President

**Gordon D. Goering,** Vice President Refining

**John E. Harris, Jr.,** Vice President Supply

**G. J. Morrison,** Vice President Marketing

**J. C. Hill,** Manager Europe-Africa Petroleum Products (London)

**J. E. Arnold,** Manager Planning, Budgeting and Correlation Division

**D. B. Taylor,** Manager Transportation

**H. L. Wendel,** Manager Administration

**T. C. Morris,** Controller

### CHEMICALS GROUP

**L. H. Johnstone,** Executive Vice President

**R. G. Askew,** Senior Vice President

**R. G. Rhodes,** Vice President Planning and Development

**E. H. McNeil,** Manager Fertilizer

**J. N. Scott,** Manager Plastics (Houston)

**H. T. Sears, Jr.,** Manager Rubber Chemicals

**W. K. Shriver,** Manager Consumer Products (Houston)

**K. L. Smalley,** Manager Petrochemicals

**Robert J. Stripling, Jr.,** President, Phillips Fibers Corporation (Greenville, South Carolina)

**J. J. Kavanagh,** Manager Europe-Africa (Brussels)

**Frank Rendon,** Manager Latin America (Houston)

**C. M. Wilson,** Manager Asia (Hong Kong)

**R. M. Dixon,** Manager Administration

**W. H. Guthrie,** Manager Business Promotion

**H. F. Thill,** Controller

### OTHER CORPORATE OFFICERS

**R. G. Wallace,** Senior Vice President

**LeRoy Culbertson,** Senior Vice President Planning and Budgeting

**O. W. Armstrong,** Vice President Treasury

**Sloan K. Childers,** Vice President Public Affairs

**Glenn A. Cox,** Vice President Management Information and Control

**J. W. Davison,** Vice President Research and Development

**Kenneth Heady,** Vice President and General Counsel

**Russell L. Howard,** Vice President New York Office

**Carstens Slack,** Vice President Washington Office

**W. R. Thomas,** Vice President Human Resources

**C. H. Trotter,** Vice President Corporate Management Services

**H. D. Trotter,** Vice President Engineering and Services

**R. E. Bonnell,** Treasurer

**J. W. O'Toole,** General Tax Officer

**Richard E. Roberson, Jr.,** Comptroller

**Harvey W. Thompson,** Secretary

### OTHER CORPORATE EXECUTIVES

**R. S. McConnell,** President, Applied Automation, Inc.

**R. Y. Bandy, Jr.,** Associate General Counsel

**James Mullen,** Associate General Counsel

**C. J. Roberts,** Associate General Counsel

**J. Bryan Whitworth,** Associate General Counsel

**M. L. Collins,** Manager Real Estate and Insurance

**R. S. Dickson,** Manager Information Services

**D. R. Hynes,** Manager Purchasing

**W. J. Kramer,** Manager Aviation

**J. F. Sauls,** Manager General Services

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## MANAGEMENT CHANGES

W. W. Dunn was elected vice president Latin America-Asia exploration and production, the division he previously headed as managing director. Owen D. Thomas was elected vice president worldwide exploration, the division he previously headed as manager.



In 1979 Clark M. Clifford, senior partner in the law firm of Clifford & Warnke, retired from Phillips board of directors after reaching the outside director's mandatory retirement age of 72. Clifford had been a member of Phillips board since 1969.

Victor H. Palmieri, chairman of the board of directors of Victor Palmieri & Company, Inc., also retired from the board. Palmieri, who joined the Phillips board in 1976, resigned to accept a federal appointment as U.S. ambassador at large and coordinator of refugee affairs.

Carol C. Laise and J. Lucian Smith were elected to Phillips board in 1979, and early in 1980 Michael N. Chetkovich was elected a board member.

As of March 1, 1980, Phillips board consisted of five directors who are also employees and officers of the company and 10 directors who are not employees.



Carol C. Laise

Melvin R. Laird

W. F. Martin



Michael N. Chetkovich

Dolores D. Wharton

Wm. C. Douce



W. Clarke Wescoe

W. A. Roberts

J. Lucian Smith



E. Douglas Kenna

C. M. Kittrell

David B. Meeker



Francis M. Wheat

William Piel, Jr.

L. H. Johnstone





**SELECTED SUBSIDIARIES  
AND AFFILIATES**

APPLIED AUTOMATION, INC.  
PHILLIPS COAL COMPANY  
PHILLIPS FIBERS CORPORATION  
N.V. PHILLIPS PETROLEUM CHEMICALS S.A.  
PHILLIPS PETROLEUM COMPANY EUROPE-AFRICA  
PHILLIPS PIPE LINE COMPANY  
PHILLIPS PUERTO RICO CORE INC.  
PHILLIPS URANIUM CORPORATION  
PHILTANKERS INC.  
PIER 66 COMPANY  
SEALRIGHT CO., INC.  
PHILLIPS CHEMICAL COMPANY,  
a division of Phillips Petroleum Company

**OFFICES**

**PRINCIPAL OFFICES**

Bartlesville, Oklahoma 74004  
80 Broadway, New York, New York 10005  
306 South State Street, Dover, Delaware 19901

**STOCK TRANSFER OFFICES**

Until April 1, 1980

Until April 1, 1980

Beginning April 1, 1980

Phillips Petroleum Company  
80 Broadway  
New York, New York 10005

Phillips Petroleum Company  
15 Exchange Place  
Jersey City, New Jersey 07302

Manufacturers Hanover Trust Company  
4 New York Plaza  
New York, New York 10015

Montreal Trust Company  
15 King Street West  
Toronto, Ontario, Canada M5H 1B4

**REGISTRARS**

Manufacturers Hanover Trust Company  
4 New York Plaza  
New York, New York 10015

Canada Permanent Trust Company  
20 Eglinton Avenue West  
Toronto, Ontario, Canada M4R 2E2